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Tax practice Guides and Checklists for Treasurers, Controllers, and Financial Managers 1998

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***1998 Tax Guides and Checklists for Treasurers,
Controllers and Financial Managers***

AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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Prepared by the
Tax Practice Guide Committee of the
AICPA Tax Division

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

1998 Tax Guides and Checklists for Treasurers, Controllers and Financial Managers

**Prepared by the
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090452

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WARNING!

- ! This package of tax guides and checklists was completed in the fall of 1998. It does not necessarily reflect subsequent legislative, administrative or tax form changes. You may need to revise these guides accordingly.
- ! The Tax and Trade Relief Extension Act of 1998 was passed shortly after these guides and checklists were updated! Any changes due to this new law have not been reflected in these guides and checklists.
- ! If you have any questions about the content of these guides please contact James Clark (202) 434-9229 or email at JClark@aicpa.org.

PREFACE

Spurred by the ready availability and interconnectivity of accounting and tax-return preparation software, more and more tax departments of businesses and not-for-profit organizations are preparing their own tax returns rather than engaging a preparer from outside the organization. This practice aid, *1998 Tax Guides and Checklists for Treasurers, Controllers and Financial Managers*, is designed to assist the *in house* tax return preparer to complete this important task both efficiently and timely.

CPAs getting ready to prepare their business' or organizations' 1998 tax returns can use the *1998 Tax Guides and Checklists for Treasurers, Controllers and Financial Managers*, prepared by the Tax Practice Guides Committee of the AICPA Tax Division, to organize and coordinate the annual information gathering and return preparation task. Eliminating extraneous explanations and detailed dissertations of the underlying tax law, the book contains ready-to-use tax return organizers and tax-return preparation and review checklists.

The Tax Return Organizers are designed to assist you in compiling the information you need to prepare your return. The particulars of income, expenses and other deductions, credits, as well as questions that determine the proper handling of these items are set forth in clear understood language ready to be completed by you or your staff.

The Tax Return Preparation and Review checklists, which were also developed by the Committee, highlight the items critical to the preparation of the tax returns of S and C corporations, partnerships, exempt corporations, and employee benefit plans. They do not reiterate the detailed instructions provided by the IRS. These checklists should be used in tandem with the return organizers, which is the prime source of information needed to prepare the underlying return.

Finally, if your tax department does not prepare your tax returns, you can use the checklists and organizers to review returns prepared by your outside CPA. These checklists and organizers are the blue print to follow to assure that all the required information has been gathered and the critical questions have been asked.

NOTICE TO READERS

Tax practice guides are designed as educational and reference material for the members of the Tax Section and others interested in the subject. They do not establish standards or preferred practices.

Although much thought and effort have gone into the development of these guides, they are subject to change. Many of the regulations related to current and prior tax acts have not been issued. These checklists need to be revised as new developments occur.

Accordingly, these practice guides are issued as drafts only, and you retain responsibility for their final content. Please review them carefully and make any changes necessary for your particular use.

Members of the 1997-1998 AICPA Tax Practice Guides Committee prepared these practice guides. The members of that committee are listed below:

Timothy J. Bartz, <i>Chair</i>	Katherine Leonard
Rick Betts	Barbara A. Ley
Robert A. Docili	James Littlefield
Craig Fisher	Donald Orr
Robert F. Kane	T. Charles Parr III
Arthur Kersh	Wilburn Robinson
Larry Kominsky	Rachel Thomas

Robert L. Holman, Tax Executive Committee Liaison
James S. Clark, Jr., Manager, AICPA Tax Division Staff

The Tax Division and aforementioned committee members wish to express their appreciation to the AICPA State and Local Taxation Committee and the S Corporation Taxation Committee for their preparation of the guides and checklists in Section XVI, as well as to the following technical reviewers for their outstanding assistance:

Robert Blume	Larry Hyatt	Jeffery McClanathan
Carol Calkins	Neil Keeter	Richard Mills, III
L. B. Carpenter	John Kinney	Larry Montague
William DeMayo	Michael D. Koppel	Larry Silver
Peter Fishman	Christine Landoll	Mark Stutman
Lawrence D. Friedman	Timothy Larson, Esquire	Rich Taylor
Tom Herberg	Bob Lightburn	Patricia Thompson

1998 AICPA TAX GUIDES AND CHECKLISTS FOR TREASURERS, CONTROLLERS AND FINANCIAL MANAGERS

USER'S RESPONSE SHEET

Your assessment of this book will help to ensure that future editions will be of enhanced value. Please complete both sides of this questionnaire and mail or fax it to Murray B. Schwartzberg, Specialized Publications and Subsidiary Rights, AICPA, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881; Fax (201) 938-3780.

Thank you for your assistance.

- 1) How do you use the tax return checklists and practice guides? Check the appropriate responses.

	<u>As Is</u>	<u>Modified</u>	<u>Do Not Use</u>
Checklists:			
C Corporation (1120): Expanded Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Short Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mini Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
S Corporation (1120S): Expanded Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Short Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mini Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Partnership (1065): Expanded Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Short Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mini Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Return of Organization Exempt from Income Tax (990)			
Expanded Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mini Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Exempt Organization Business Income Tax (990-T)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Return of Private Foundation Checklist (990-PF)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
State Corporation Income Tax Return	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employee Benefit Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Passive Activity Checklist	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
State Tax Nexus Practice Guide/Checklist	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Section 704(b) Practice Guide	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Oil and Gas Practice Guide	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Vehicle Guides	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
State Corporate Tax Issues Practice Guide	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IRS Examination Guide	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Organizers:			
Corporation (1120 and 1120S):	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporation - One Page Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
S Corporation - One Page Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Partnership (1065)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Partnership - One Page Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tax Exempt Organization (990)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tax Exempt Organization - Short Version	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Qualified Retirement Plan (5500)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- 2) Please use the space below to comment on the *1998 Tax Guides and Checklists for Treasurers, Controllers and Financial Managers*, to tell us how you may have modified the materials, and to offer suggestions for tax and nontax materials you would like to see included in future guides.

- 3) To assist the Tax Division in preparing future guides for the membership, please attach tax checklists and practice guides you have used

OVER

ELECTRONIC DISTRIBUTION

Please answer the following questions. Your response will be very helpful in guiding us in deciding how to distribute the Guides and Checklists in the future. Thank you.

		<u>YES</u>	<u>NO</u>
1.	Would you prefer to receive this document electronically?	_____	_____
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	_____ CD Rom	_____	_____
	_____ Diskette	_____	_____
	_____ E-mail	_____	_____
5.	If you were to receive this document electronically would you prefer:		
	_____ WordPerfect format	_____	_____
	_____ Word format	_____	_____
	_____ Other: _____		

1998 TAX GUIDES AND CHECKLISTS FOR TREASURERS, CONTROLLERS AND FINANCIAL MANAGERS

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TAX RETURN ORGANIZERS

These tax organizers have been designed to assist in compiling the information needed to prepare the respective returns. The following pages contain many of the common income items, expenses, deductions, and credits, as well as questions that determine the proper handling of these items.

CORPORATION TAX ORGANIZER (1120)

Corporation Name _____	Tax Period _____
Address _____	Federal ID# _____
_____	State ID# _____

Provide a general ledger, trial balance, depreciation schedules, balance sheet and profit and loss statement. In addition, provide the following information:

	<u>DONE</u>	<u>N/A</u>
1. Copies of correspondence with tax authorities regarding changes to prior year returns.	_____	_____
2. Details of changes in stock ownership.	_____	_____
3. For each corporate officer provide SS#, compensation, percentage of ownership and time devoted to business.	_____	_____
4. Schedule of loans to/from shareholders, officers and related parties including interest rates and payment schedules.	_____	_____
5. Detailed analysis of entries in prepaid, accrued, and income tax expense accounts, including dates and amounts of all federal, state and local income tax payments and refunds.	_____	_____
6. Copies of forms 1099, 941, 940, 5500, 1042 and W-2s that have been filed.	_____	_____
7. Schedule of all interest and dividend income.	_____	_____
8. Schedule of assets acquired and/or sold during the year including date acquired, date sold, sales or purchase price, including any trade-in allowance.	_____	_____
9. Copy of the inventory uniform capitalization computation.	_____	_____
10. Schedule of contributions.	_____	_____
11. Detail of any lobbying expenses.	_____	_____
12. List non-deductible expenses, such as penalties and life insurance premiums.	_____	_____
13. Schedule of any club dues paid.	_____	_____
14. Vehicle and mileage data for company owned passenger vehicles.	_____	_____
15. Details of miscellaneous income/expense accounts.	_____	_____
16. Furnish total of meal and entertainment expenses.	_____	_____
17. List of activities conducted in other states.	_____	_____

S CORPORATION TAX ORGANIZER (1120S)

Corporation Name _____	Tax Period _____
Address _____	Federal ID# _____
_____	State ID# _____

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and profit and loss statement by activity. In addition, provide the following information:

	<u>DONE</u>	<u>N/A</u>
1. Copies of correspondence with tax authorities regarding changes to prior year returns.	_____	_____
2. Details of changes in stock ownership.	_____	_____
3. For each shareholder provide ID#, compensation, percentage of ownership, time devoted to business, date ownership acquired and detail of distributions received.	_____	_____
4. Schedule of all fringe benefits paid on behalf of more than 2% shareholders and indicate which benefits have been included in their W-2.	_____	_____
5. Schedule of loans to/from shareholders, officers and related parties including interest rates and payment schedules.	_____	_____
6. Schedule of built-in gains.	_____	_____
7. Detailed analysis of entries in prepaid, accrued, and income tax expense accounts, including dates and amounts of all federal, state and local income tax payments and refunds.	_____	_____
8. Copies of forms 1099, 941, 940, 5500, 1042 and W-2s that have been filed.	_____	_____
9. Schedule of all interest and dividend income.	_____	_____
10. Schedule of assets acquired and/or sold during the year including date acquired, date sold, sales or purchase price, including any trade-in allowance.	_____	_____
11. Copy of the inventory uniform capitalization computation.	_____	_____
12. Schedule of contributions.	_____	_____
13. Detail of any lobbying expenses.	_____	_____
14. Schedule of any club dues paid.	_____	_____
15. List non-deductible expenses such as penalties and life insurance premiums.	_____	_____
16. Vehicle and mileage data for company owned passenger vehicles.	_____	_____
17. Details of miscellaneous income/expense accounts.	_____	_____
18. Furnish total of meal and entertainment expenses.	_____	_____
19. List each type of trade or business activity or rental activity and indicate the date started or acquired.	_____	_____
20. List of activities conducted in other states.	_____	_____

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

ORGANIZATION NAME _____

ADDRESS _____

TELEPHONE # _____

FAX # _____

E-MAIL ADDRESS _____

TAX YEAR ENDING _____

FEDERAL ID# _____

STATE ID# _____

This organizer is designed to assist you in gathering the information needed to prepare the Corporation's current year tax returns. Please complete the organizer and answer all questions. Should you have questions regarding any items, please do not hesitate to contact us (me).

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and profit and loss statement by activity. In addition, the following information is required:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
100) GENERAL INFORMATION			
101) If this is the first year we will prepare the tax return, provide the following from your file or your prior accountant:			
• Tax returns for the prior three years	_____		_____
• Depreciation schedules	_____		_____
• List of all investments	_____		_____
• All tax carryforward schedules such as NOL, tax credits, contributions, etc.	_____		_____
• Copy of buy/sell agreement	_____		_____
 <u>S CORPORATION ONLY</u>			
• Provide a copy of the S corporation approval.	_____		
• Provide a list of all shareholders and provide the following information:	_____		
• Name			
• Address			
• ID#			
• Type of entity			
• Number of shares			
• If the corporation (1) filed its election to be an S corporation after December 31, 1986; and (2) was a C corporation prior to making the election, provide a copy of the schedule of net built-in gains.	_____		_____
• Has the corporation elected a fiscal year end? If "yes," provide a schedule of section 444 tax deposits and a copy of Form 8716.	_____	_____	_____
• Does the corporation engage in more than one trade or business activity? If "yes," list and note those started or acquired after October 22, 1986.	_____	_____	_____
• Does the corporation engage in any rental activity? If "yes," list and note those started or acquired after October 22, 1986.	_____	_____	_____
102) Should the address shown on the return be different from last year? If so, what address should be shown on the return?	_____	_____	
103) Has the corporation been notified of any changes to previous returns by any taxing authority? If "yes," provide copies of all correspondence.	_____	_____	
104) If ownership changed during the year, has there been a change in ownership percentages? Provide a schedule of all changes, including dates and number of shares.			_____
105) Have there been any changes to the shareholders' buy/sell agreement? If "yes," provide a copy.	_____	_____	
106) Has the corporation updated its minute book for the year? If "yes," provide copies.	_____	_____	

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

107) Provide the names and telephone numbers of the corporation's advisors:

	Name and Address	Telephone #	Fax #	E-Mail
Attorney				
Banker				
Insurance				
Broker				

108) Describe the principal business activity of the corporation:

- .1) Did the corporation purchase or sell a business or business segment during this year?
If "yes," provide a copy of contract or agreement. _____
- .2) Did the corporation engage in any new activities during the year? If "yes," describe
new business on an attached sheet. _____
- .3) Did the corporation discontinue operations this year? _____

109) Does the corporation have any of the following employee benefit plans?

- .1) Qualified retirement plan(s)? _____
If "yes," are we to prepare 5500 series form(s)? _____
Are we to compute the contribution? _____
- .2) SEP or Simple Plan? _____
If "yes," are we to compute the contribution? _____
- .3) Cafeteria plan? _____
If "yes," are we to prepare 5500 series form? _____
- .4) Non-qualified retirement plan(s)? _____
Number of plans ____ (describe) _____

- If "yes," has the "one time only" filing with the Department of Labor been done? _____
- .5) Other benefit plans not described above? _____
If "yes," describe: _____

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
110) Did the corporation include taxable fringe/welfare benefits such as health insurance, group term life insurance, educational assistance, expense allowances and personal use of corporate owned vehicles as compensation in employee W-2 forms and, if applicable, subject such amounts to payroll taxes?	_____	_____	_____
111) At year end, did the corporation own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? If "yes":	_____	_____	
.1) Name: _____			
Address: _____			
ID#: _____			
Ownership percentage: _____			
.2) Income (loss) of such corporation \$ _____			
112) At year end did any corporation, individual, partnership, trust or estate own, directly or indirectly, 50% or more of the corporation's voting stock? If "yes":	_____	_____	
.1) Name: _____			
Address: _____			
ID#: _____			
Ownership percentage: _____			
.2) Was such owner a person other than a U.S. citizen?	_____	_____	
113) Do the shareholders owning 80% or more of this corporation own 80% or more of any other corporation(s)? If "yes," provide a copy of the other corporate tax returns.	_____	_____	
114) Is this corporation a shareholder of any foreign corporation? If "yes," identify each corporation.	_____	_____	
115) Did the corporation at any time during the year have an interest in a foreign bank account? If "yes," provide details.	_____	_____	
116) Was the corporation the grantor or transferor to a foreign trust during the year? If "yes," provide details.	_____	_____	
117) During this taxable year, did the corporation pay dividends? If "yes," attach a schedule reflecting date declared, date paid, amount and form of payment (cash, other).	_____	_____	
118) Did one foreign person, at any time during the tax year, own directly or indirectly, 25% or more of the total voting power or value of all classes of stock of the corporation? If "yes":	_____	_____	
.1) Enter the percentage owned _____			
.2) Enter the owner's country _____			

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

119) List income tax deposits below in order of date paid:

	Prior Year Overpayment Applied	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Extension
FEDERAL						
Date Paid						
Amount	\$					
STATE						
Date Paid						
Amount	\$					

120) Provide a detailed schedule of the activity, for the tax year, in the corporation's general ledger income tax accounts (asset, liability and expense). _____

121) Circle method of accounting for tax purposes:

Cash Accrual Other (Describe) _____

122) Did the corporation establish any new general ledger accounts during the year? If "yes," provide a list with a brief explanation of each new account. _____

123) Did the corporation post any entries to the retained earnings account during the year? If "yes," provide details of the activity. _____

124) Provide copies of forms 1099, 941, 940, 1042 and W-2s that have been filed. _____

125) Did the corporation have loans with shareholder(s) and other related parties during the tax year? If "yes," provide a schedule indicating the amount of the loan, date of transaction, interest rate and payments. Also, provide a copy of the note if not previously provided. _____

126) Did the corporation refinance or restructure any outstanding debt this year? If yes, provide documentation. _____

127) Does the corporation do business in any other state? If "yes," list state returns required: _____

1) Provide copies of supporting schedules reflecting the three factor (property, payroll, sales) multistate apportionment formula. _____

2) Provide a schedule showing any amounts for which there are known timing or treatment differences between federal and state reporting. _____

128) How many additional copies of the return do you need? _____

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

200) INCOME

- 201) Did the corporation receive interest income from the following sources?
If "yes," list total amount.

U.S. Agencies _____
Tax exempt-in state _____
U.S. Government _____
Tax exempt-out of state _____
Tax exempt-private activity _____

- 202) Did the corporation sell any stocks, bonds, or securities during the year? If "yes," complete the following:

Description of Securities Sold	Date Acquired	Cost or Basis Plus Selling Expenses	(Trade Date) Date Sold	Total Sales Price

- 203) Did the corporation own securities that became worthless during the year? If "yes," attach details.

- 204) Did the corporation sell any assets used in its business? If "yes," provide a schedule listing:

- Description of asset sold
- Date sold
- Sales price
- Selling expenses
- Date acquired
- Original cost or basis
- Depreciation claimed in prior years

- 205) Provide detail of all items greater than \$ _____ in the miscellaneous income account.

Description	Amount

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

206) Did the corporation receive dividend income this year?

___ ___

Stock/Mutual Fund Name	Date Purchased	Amount of Dividend	Percent Owned if Over 20%

.1) If dividends are from mutual funds, provide the year-end statements.

207) Did the corporation make any sales qualifying for the installment method of reporting?

___ ___

If "yes," attach a copy of the agreement, the principal and interest received, and the beginning of the year and end of the year contract balances.

208) Were there any sales or exchanges during the year between the corporation and a shareholder? If "yes," attach a detailed schedule.

___ ___

209) Did the corporation engage in any bartering activity during the year? If so, attach a schedule of all such activities.

___ ___

300) DEDUCTIONS

301) Information regarding corporate officers:

Name	Social Security Number	% Time Devoted to Business	% Stock Owned		Compensation
			Common	Preferred	

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

302) Fiscal year Personal Service Corporation's (PSC):

.1) Is the corporation a PSC on a fiscal year? If "yes," provide the following information:

Name of Officer/Shareholder	Compensation from Beg. of Fiscal Year to End of Calendar Year	Compensation from Beg. of Subsequent Calendar Year to End of Fiscal Year	Total Compensation

.2) If the PSC has elected a fiscal year end, provide a copy of an approved election (Form 8716) if not previously provided.

303) Do the Uniform Capitalization Rules under section 263A related to items such as inventory and construction apply? If "yes," provide copies of all schedules supporting the calculation of the amount of general and administrative expenses required to be capitalized in ending inventory or associated with self constructed assets.

304) List charitable contributions made or accrued during the year:

NOTE: You need to have written acknowledgment from any charity to which individual donations of \$250 or more were made during the year.

Organization	Amount

.1) Did the corporation have an accrued charitable contribution at year end? If "yes," attach a copy of minutes authorizing contribution.

.2) Did the corporation make a charitable contribution of inventory or property? If "yes," attach detail.

.3) Did the corporation make political contributions during this tax year? If "yes," enter amount \$_____. (Please note "Corporate political contributions" are illegal.)

305) Did you incur any expenses to influence legislation and "lobbying?" If "yes," provide a schedule of "lobbying expenses" and indicate which accounts these expenses were posted to.

306) Was any computer equipment donated to educational institutions? If yes, provide details.

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

307) Does the corporation pay life insurance premiums (other than group term life) for officers of the corporation? If "yes," provide the following for each policy:

- Face amount
- Premium paid
- Insured
- Cash surrender value at year end
- Policy owner
- Loan balance at year end
- Beneficiary
- Interest paid on policy loan
- Type of policy

To which general ledger accounts have the payments been posted?

308) Did the corporation pay penalties/fines during the tax year? If "yes," list amount(s) and indicate the reason for the penalty/fine.

Description	Amount

309) Did the corporation acquire any assets during the tax year? If "yes," attach a list of assets purchased including the date placed in service and a copy of the purchase invoice. Include any trade-in information.

310) Does the corporation wish to use accelerated depreciation methods?
Does the corporation wish to use section 179 depreciation?

311) Does the corporation own or lease any vehicles? If "yes," provide the following information for each vehicle (note certain exceptions may apply for companies with more than five vehicles):

- Vehicle description
- Other personal miles
- Date placed in service
- Total miles
- Business miles
- Average daily round trip commuting distance
- Commuting miles

.1) Does the corporation have evidence to support the claimed business use?
If "yes," is the evidence written?

.2) Were the vehicles available for personal use during off-duty hours?

.3) Were the vehicles used primarily by a more than 5% owner or related person?

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

.4) Is another vehicle available for personal use?

.5) Provide a copy of the lease for any leased vehicles. If not available, provide the following:

- Date of lease
- Fair market value at inception
- Term of the lease
- Lease payments

312) Regarding corporate policy for vehicles:

.1) Does the corporation maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by employees?

.2) Does the corporation maintain a written policy statement that prohibits personal use of vehicles, excluding commuting, by employees?

.3) Does the corporation treat all use of vehicles by employees as personal use?

.4) Does the corporation provide more than five vehicles to employees and retain the information received from employees concerning the use of the vehicles?

.5) Does the corporation require or maintain copies of vehicle logs?

313) Are computers or cellular phones or other listed property used by employees for personal purposes? If "yes," complete the following:

Description	Date Placed in Service	Business Use %	Cost or Basis

.1) Does the corporation have evidence to support the business use claimed?

.2) If "yes," is evidence written?

314) Did the corporation have any meal and/or entertainment expenses? If "yes," to which account(s) were these items posted? _____

315) Did the corporation pay any club dues? If "yes," to which account were these items posted?

316) List all items in the miscellaneous expense account greater than \$_____.

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

Description	Amount

317) Will all compensation related accruals (including vacation pay) be paid within 2½ months of year end? If "no," provide details of unpaid amounts.

318) Are there any accruals to shareholder(s) at year end? If "yes," provide detail.

319) Provide copies of certification for members of target groups and associated wages paid qualifying for Work Opportunities Credit (SBJPA 1996).

400) S CORPORATIONS ONLY

401) Have fringe benefits paid on behalf of more than 2% shareholders (including but not limited to medical, life insurance, disability, housing, etc.) been included in shareholder's compensation, and included in payroll taxes? Indicate to which accounts these amounts have been posted.

PARTNERSHIP TAX ORGANIZER (1065)
(SHORT VERSION)

Organization Name _____	Tax Period _____
Address _____	Federal ID# _____
_____	State ID# _____

Provide a general ledger, trial balance, depreciation schedules, balance sheet and profit and loss statement. In addition, provide the following information:

	<u>DONE</u>	<u>N/A</u>
1. Copies of correspondence with tax authorities regarding changes to prior year returns.	_____	_____
2. Details of partner ownership changes.	_____	_____
3. For each partner, provide ID#, address, percentage of ownership, profit/loss %, and general or limited classification. Identify the Tax Matters Partner.	_____	_____
4. Schedule all payments or distributions to or for partners including descriptions, amounts and the accounts to which these amounts have been posted.	_____	_____
5. Schedule loans to/from partners and related parties including interest rates and payment schedules.	_____	_____
6. Schedule of all fringe benefits paid on behalf of partners and indicate which benefits have been included in their guaranteed payments.	_____	_____
7. Detailed analysis of entries in prepaid and accrued expense accounts.	_____	_____
8. Forms 1099, 941, 940, 5500, 1042 and W-2s that have been filed.	_____	_____
9. Schedule of all interest and dividend income.	_____	_____
10. Schedule assets acquired and/or sold during the year including date acquired, date sold, sales or purchase price, including any trade-in allowance.	_____	_____
11. Copy of the inventory uniform capitalization computation.	_____	_____
12. Schedule of contributions.	_____	_____
13. Detail of any lobbying expenses.	_____	_____
14. Schedule non-deductible expenses such as penalties and life insurance premiums.	_____	_____
15. Schedule of any club dues paid.	_____	_____
16. Vehicle and mileage data for partnership owned passenger vehicles.	_____	_____
17. Details of miscellaneous expenses.	_____	_____
18. Details of total of meal and entertainment expenses.	_____	_____
19. List each type of trade or business activity or rental activity and indicate the date started or acquired.	_____	_____
20. List of activities conducted in other states.	_____	_____

PARTNERSHIP TAX ORGANIZER
FORM 1065
(EXPANDED VERSION)

ORGANIZATION NAME

ADDRESS

TELEPHONE #

FAX #

E-MAIL ADDRESS

TAX YEAR ENDING

FEDERAL ID#

STATE ID#

This organizer is designed to assist you in gathering the information needed to prepare the Partnership's current year tax returns. Complete the organizer and answer all questions. Should you have questions regarding any items, please do not hesitate to contact us (me).

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and profit and loss statement by activity. In addition, the following information will be needed:

YES NO N/A

100) GENERAL INFORMATION

101) If this is the first year we will prepare the tax return(s), provide the following from your file or your prior accountant: _____

- Partnership agreement
- Tax returns for the prior three years
- Depreciation schedules
- Partner basis carryforward schedule
- Partner buy/sell agreement
- If the partnership elected a fiscal year end, provide a schedule of section 444 tax deposits and Form 8716.
- Section 704(b) capital account reconciliation

102) Has the partnership been notified of any changes to previous returns by any taxing authority? If "yes," provide copies of all correspondence. _____

103) Have there been any amendments to the partnership agreement? If "yes," provide copies of amendments since the last year. _____

104) Provide the following information for all partners:

- Name
- Address
- Social Security/Taxpayer Identification Number
- General partner or limited partner
- Type of entity
- Domestic or foreign
- Profit sharing percentage
- Loss sharing percentage
- Percentage ownership
- Changes in partner's ownership interest after 10/22/86 (if not previously provided)
- Capital account reconciliation

105) Which general partner should be designated as the Tax Matters Partner, if applicable?

106) Has there been a change in ownership since last year? If "yes," provide the following: _____

A) Date of Transfer ____/____/____

B) Type of Transfer

- a) sale
- b) gift
- c) inheritance

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

YES NO N/A

C) Sale price or fair market value of partnership interest transferred. (Include FMV from estate return if transfer is due to death)

D) Copy of Form 8308, if applicable.

107) Did any of the partners' taxable years change during the year? If "yes," attach a schedule detailing the change. _____

108) List the names and telephone numbers of the partnership's advisors:

	Name & Address	Telephone #	Fax #	E-Mail Address
Attorney				
Banker				
Insurance				
Broker				

109) Does the partnership have any of the following employee benefit plans? _____

.1) Qualified retirement plan(s)?
If "yes," are we to prepare 5500 series form(s)? _____
Number of plans _____
Are we to compute the contribution? _____

.2) SEP or Simple plan? _____
If "yes," are we to compute the contribution? _____ _____

.3) Cafeteria plan? _____
If "yes," are we to prepare 5500 series form? _____ _____

.4) Non-qualified retirement plan(s)? _____
Number of plans _____ (describe) _____

If "yes," has the "one time only" filing with the Department of Labor been done? _____

.5) Other benefit plans not described above?
If "yes," describe: _____

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
110) Describe the principal business activity of the partnership: _____	_____	_____	
.1) Did the partnership acquire or dispose of a business or business segment during this tax year? If "yes," attach a copy of the contract or agreement.			
.2) Did the partnership engage in any new activities during this tax year? If "yes," attach a description of the new business.	_____	_____	
.3) Did the partnership discontinue operations for this year?	_____	_____	
111) Does the partnership provide fringe/welfare benefits to employees or partners? If "yes," provide a list of benefits provided.	_____	_____	
112) Did the partnership include taxable fringe/welfare benefits such as health insurance, group life insurance, educational assistance, expense allowances and personal use of company vehicles as compensation in employee's W-2 forms and, if applicable, subject such amounts to payroll taxes?	_____	_____	
113) Provide a schedule, by partner, of fringe benefits paid on behalf of each partner such as medical, life insurance, disability and housing. Indicate which accounts have been charged.	_____	_____	
114) Provide copies of Forms 1099, 941, 940 and W-2 that have been filed.	_____	_____	
115) Did the partnership have loans with partners and/or other related parties during the tax year?	_____	_____	
If "yes," attach a schedule indicating the amount of the loan, date of transaction, interest rate and payments. Also, attach a copy of the note if not previously provided.			
116) Should the address shown on the return be different from last year? If so, what address should be shown on the return?	_____	_____	
_____ _____ _____			
117) Is the partnership a partner in another partnership? If yes, attach a copy of other partnership return(s).	_____	_____	
118) Circle method of accounting for tax purposes: Cash Accrual Other (Describe) _____			
119) Did the partnership establish any new general ledger accounts during the tax year? If "yes," attach a list with a brief explanation of each account.	_____	_____	
120) Did the partnership post any entries to the partnership capital accounts during the year? If "yes," provide detail of the activity.	_____	_____	

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

YES NO N/A

121) Was there a distribution of property or a transfer (for example, by sale or death) of a partnership interest during this tax year? _____

If marketable securities were distributed, provide the date of distribution and fair market value at distribution dates(s). _____

122) Has the partnership ever elected to "step up" the basis of any assets in connection with the death of a partner or a change in ownership? (754 election) _____

123) Did the partnership, at any time during the tax year, have an interest in a foreign bank account? _____

124) Was the partnership the grantor of, or transferor to, a foreign trust during the tax year? _____

125) Does the partnership do business in any other state(s)? If "yes," list state(s) _____

.1) Provide copies of supporting schedules reflecting the three factor (property, payroll, sales) multistate apportionment formula used to determine income.

.2) Provide a schedule showing any amounts for which there are known timing or treatment differences between federal and applicable state reporting.

126) How many additional copies of the return do you need? _____

127) Is this a final return? _____

200) INCOME

201) Does the partnership engage in more than one trade or business activity? If "yes," attach a list and note those started or acquired after 10/22/86. _____

202) Does the partnership engage in any rental real estate activity? If "yes," attach a list and note those started or acquired after 10/22/86. _____

203) Did the partnership receive interest income from the following sources? If "yes," indicate the amount. _____

U.S. agencies _____

U.S. government _____

Tax exempt-out of state _____

Tax exempt-in state _____

Tax exempt-private activity _____

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

YES NO N/A

204) Did the partnership sell any stocks, bonds or securities during the year? If "yes," complete the following: _____

Description of Securities Sold	Dates Acquired	Cost or Basis Plus Selling Expenses	(Trade Date) Date Sold	Total Sales Price

205) Did the partnership own any securities that became worthless during the year? If "yes," attach details. _____

206) Did the partnership acquire any "Qualified Small Business Stock?" _____

207) Did the partnership own any mutual funds? If "yes" attach year end statement. _____

208) During the tax year, did the partnership sell or dispose of any assets used in the business? If "yes," provide a schedule listing: _____

- Description of asset sold
- Date sold
- Sales price
- Selling expenses
- Date acquired
- Original cost or basis
- Depreciation claimed in prior years

209) Provide detail of all items greater than \$_____ in the miscellaneous income account. _____

Description	Amount

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

YES NO N/A

- 210) Did the partnership have any sales during the year that qualify for the installment method of reporting? If "yes," attach a copy of the agreement, the principal and interest received, and the beginning of year and end of year contract balances. _____
- 211) Were there any sales or exchanges during the year between the partnership and a partner? If "yes," provide a detailed listing. _____
- 212) Did the partnership engage in any bartering activity during the year? If so, provide a schedule of all such activities. _____

300) DEDUCTIONS

- 301) Were there any payments to partners during the year for services or for the use of capital determined without regard to income? If "yes," provide the details below: _____

Partner	Description	Amount

- 302) Do the Uniform Capitalization Rules under section 263A related to items such as inventory and construction apply? If "yes," attach copies of all schedules reflecting the calculation of the amount of general and administrative expenses required to be capitalized in ending inventory or associated with self-constructed assets. _____

- 303) List all charitable contributions made or accrued during the tax year:

NOTE: You need to have written acknowledgment from any charity to which individual donations of \$250 or more were made during the year.

Organization	Amount

- 304) Did the partnership make political contributions during the tax year? _____
- .1) If "yes," enter the amount. \$ _____
- .2) If "yes," enter to which accounts were the contributions posted.
- 305) Did you incur any expenses to influence legislation (lobbying)? If "yes," provide a schedule of "lobbying expenses" and indicate to which accounts these expenses were posted. _____

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

YES NO N/A

306) Does the partnership pay life insurance premiums (other than group term life) for any partner(s)? If "yes," provide the following for each policy:

- | | |
|---|--|
| <ul style="list-style-type: none"> • Face amount • Insured • Policy owner • Beneficiary • Type of policy | <ul style="list-style-type: none"> • Premium paid • Cash surrender value at year end • Loan balance at year end • Interest paid on policy loan |
|---|--|

To which general ledger accounts have the payments been posted?

307) Did the partnership pay any penalties/fines during the tax year? If "yes," list amount(s) and indicate the reason for the penalty/fine.

Description	Amount

308) Did the partnership acquire any assets during the tax year? If "yes," provide a schedule of assets purchased including the date placed in service, and a copy of the purchase invoice. Include any trade-in information.

309) Did any partners contribute any assets to the partnership during the year? If "yes," provide a schedule of such assets received including date placed in service and partner's basis in such assets and fair market value of such asset.

310) Does the partnership wish to use accelerated depreciation methods?
Does the partnership wish to use accelerated 179 depreciation?

311) Does the partnership own or lease any vehicles? If "yes," provide the following information for each vehicle (NOTE: certain exceptions may apply for taxpayers with more than five vehicles):

- Vehicle description
- Date placed in service
- Business miles
- Commuting miles
- Other personal miles
- Total miles
- Average daily round trip commuting distance

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

- | | <u>YES</u> | <u>NO</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| .1) Does the partnership have evidence to support the claimed business use?
If "yes," is the evidence written? | _____ | _____ | _____ |
| .2) Were the vehicles available for personal use during off-duty hours? | _____ | _____ | _____ |
| .3) Were the vehicles used primarily by a more than 5% owner or related person? | _____ | _____ | _____ |
| .4) Is another vehicle available for personal use? | _____ | _____ | _____ |
| .5) Provide a copy of the lease for any leased vehicles. If not available, provide the following: <ul style="list-style-type: none"> • Date of lease • Fair market value at inception • Term of lease • Lease payments | _____ | _____ | _____ |
| 312) Regarding partnership policy for vehicles: | | | |
| .1) Does the partnership maintain a written policy statement that prohibits all personal use of vehicles, <u>including</u> commuting, by employees? | _____ | _____ | _____ |
| .2) Does the partnership maintain a written policy statement that prohibits personal use of vehicles, <u>excluding</u> commuting, by employees? | _____ | _____ | _____ |
| .3) Does the partnership treat all use of vehicles by employees as personal use? | _____ | _____ | _____ |
| .4) Does the partnership provide more than five vehicles to employees and retain the information received from employees concerning the use of vehicles? | _____ | _____ | _____ |
| .5) Does the partnership require or maintain copies of vehicle logs? | _____ | _____ | _____ |
| 313) Are computers, cellular phones or other property used for personal purposes? If "yes," complete the following: | _____ | _____ | _____ |

Description	Date Placed in Service	Business Use %	Cost or Basis

- | | | | |
|--|-------|-------|-------|
| .1) Does the partnership have evidence to support the business use claimed? | _____ | _____ | _____ |
| .2) If "yes," is the evidence written? | _____ | _____ | _____ |
| 314) Did the partnership have any meal or entertainment expenses? If "yes," which account(s) were these items posted to? | _____ | _____ | _____ |
| 315) Did the partnership pay any social or entertainment club dues? If "yes," provide the amounts \$ _____ and to which account these items were posted. | _____ | _____ | _____ |

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

YES NO N/A

316) Schedule below all items in the miscellaneous expense account greater than \$_____.

Description	Amount

317) Will all compensation related accruals (including vacation pay) be paid within 2½ months of year end? If "no," provide details of unpaid amounts.

318) Provide copies of certification for members of target groups and associated wages paid after September 30, 1996 qualifying for Work Opportunities Credit (SBJPA 1996).

319) Provide the following information for all items of interest expense:

Payee	Purpose of Loan	Recourse/ Non-Recourse	Year End Principal Balance	Interest Expense

320) Were there any accruals of interest, compensation or other expenses to partners at year end? If "yes," provide detail.

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990) - SHORT VERSION

Organization Name _____ Tax Period _____

Address _____ Federal ID# _____

_____ State ID# _____

Exempt Under § 501(c) _____

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and statement of receipts and expenses as of year end. Section 501(c)(3) and (c)(4) organizations and § 4947(a)(1) trusts need to categorize expenses as to program services, management/general, and fund raising. In addition, the following information will be needed:

	<u>Done</u>	<u>N/A</u>
1. Provide information about any activities new to the organization which require IRS notification.	_____	_____
2. Provide copies of any changes to the governing documents or information related to a change in organization structure.	_____	_____
3. Provide a list of names and percentage owned of any related organizations and indicate whether they are exempt.	_____	_____
4. List the states with which a copy of this return is to be filed.	_____	_____
5. Provide a list of employee benefit plans for which the organization requires assistance in filing 5500 series forms.	_____	_____
6. Provide copies of any change notices received from any taxing authority.	_____	_____
7. Provide a schedule of "in-kind" contributions and indicate whether they are included in income.	_____	_____
8. Do you provide written acknowledgement to donors of individual contributions of \$250 or more?	_____	_____
9. Do you provide information on the amount of the deductible donation to donors of <i>quid pro quo</i> donations in excess of \$75?	_____	_____
10. Disclose taxes paid during the year for the following:		
a) excess expenditures to influence legislation	_____	_____
b) disqualifying lobbying expenditures	_____	_____
c) political expenditures	_____	_____
d) excess benefit transactions	_____	_____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990) - SHORT VERSION

	<u>Done</u>	<u>N/A</u>
11. For each area of program service revenue, provide an explanation of how the activity contributes to the organization's exempt purpose.	_____	_____
12. Attach information related to the income and expenses from unrelated business income.	_____	_____
13. Provide a list of investments at year end including cost and market value of each item.	_____	_____
14. Provide copies of all K-1s received.	_____	_____
15. Provide a schedule of donors who gave property with a value of at least \$5,000.	_____	_____
16. Provide a schedule of the three largest fund raising events, describe the event and indicate the amount raised. (Attach a copy of fundraising materials.)	_____	_____
17. Prepare a statement describing the services provided under the four largest program services offered by the organization.	_____	_____
18. How many employees were on the payroll as of March 12th? _____	_____	_____
19. Provide a schedule of wages/compensation, deferred compensation and expense account payments for all officers, directors, trustees, key employees and advisors. Include a schedule of time devoted to fundraising, management, exempt purpose and average hours worked per week.	_____	_____
20. Provide a list of names and addresses of employees (other than officers) who received compensation in excess of \$50,000.	_____	_____
21. Provide a list of officers, directors or key employees who received \$10,000 or more in compensation from a related entity.	_____	_____
22. Provide a list of names and addresses of individuals/entities providing professional services to the organization at fees in excess of \$50,000.	_____	_____
23. Provide information including amounts expended regarding legislative, lobbying or political activities during the year.	_____	_____
24. Provide details regarding all transactions with a trustee, director, principal officer, or creator of the organization.	_____	_____
25. Section 501(c)(7) organizations—provide the amount of initiation fees and capital contributions.	_____	_____
26. Section 501(c)(12) organizations—attach a detailed computation of the 85% qualification test.	_____	_____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990) - SHORT VERSION

	<u>Done</u>	<u>N/A</u>
27. Public interest law firms—attach a list of cases litigated during the year and describe the benefit to the general public.	_____	_____
28. How many additional copies of the return are needed? _____	_____	_____
29. Do you have three years returns and the exemption application available for public inspection?	_____	_____
30. Additional information:		

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)
(EXPANDED VERSION)

ORGANIZATION NAME _____

ADDRESS _____

TAX YEAR ENDING _____

FEDERAL ID# _____

STATE ID# _____

REGISTRATION # _____

EXEMPT UNDER § 501(c) _____

This organizer is designed to assist you in gathering the information needed to prepare the organization's current year tax returns. Complete the organizer and answer all questions. Should you have questions regarding any items, please call.

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)
(EXPANDED VERSION)

Provide a copy of the organization's general ledger, trial balance, depreciation schedules, balance sheet, and statement of revenues and expenses as of year-end. Section 501(c)(3) and (c)(4) organizations and § 4947(a)(1) trusts need to categorize expenses as to program services, management/general and fund raising. In addition, the following information will be needed:

YES NO N/A

100) GENERAL INFORMATION

101) If this is the first year we will prepare the tax return(s), provide the following from your file or your prior accountant: _____

- Tax returns for the prior three years _____
- Depreciation schedules _____
- IRS notification of exempt status _____
- Application for Exemption, Form 1023 or 1024 _____
- IRS determination letter for any qualified retirement plans _____

102) Is the organization's address different from last year? _____

103) List the names and telephone numbers of the organization's advisors.

	Name	Telephone
Attorney		
Banker		
Insurance Agent		
Broker		

104) List the states with which a copy of this return will be filed. _____

105) Did the organization engage in any activity not previously reported to the Internal Revenue Service? If "yes," provide a detailed description of each activity. _____

106) Were any changes made in the organizing or governing documents? If "yes," attach a copy of the changes and indicate if they have been reported to the IRS. _____

107) Did the organization undergo a liquidation, dissolution, termination, or substantial contraction during the year? If "yes," provide details. _____

108) Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other organization? If "yes," enter the name of the organization and indicate if it is exempt or non-exempt. _____

109) Does the organization provide fringe benefits to employees such as health insurance, group term life insurance, education assistance, expense allowances, or personal use of organization owned real or tangible personal property? If "yes," list the benefits provided. _____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)
(EXPANDED VERSION)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
110) Did the organization include taxable fringe benefits as compensation in employee W-2 forms and, if applicable, subject such amounts to payroll taxes?	_____	_____	_____
111) Does the organization sponsor any of the following employee benefit plans?	_____	_____	
.1) Qualified retirement plan(s)?			
If "yes," are we to prepare 5500 series form(s)?	_____	_____	
Number of plans: _____	_____	_____	
.2) SEP plan?	_____	_____	
If "yes," are we to calculate contribution?	_____	_____	
.3) Cafeteria plan?	_____	_____	
If "yes," are we to prepare 5500 series form?	_____	_____	
.4) Non-qualified retirement plan(s)?	_____	_____	
Number of plans: _____			
.5) Other employee benefit plans not described above?	_____	_____	
If "yes," please describe: _____			
112) Has the organization been notified of any changes to previous returns by any taxing authority? If "yes," provide copies of all correspondence.	_____	_____	
113) Has the organization posted the results of tax changes in its general ledger?	_____	_____	_____
114) Did the organization establish any new general ledger accounts during the tax year? If "yes," provide a list with a brief explanation of each account.	_____	_____	
115) Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value? If "yes," provide a detailed list indicating the value of each item and whether it is included in revenue and expense.	_____	_____	
116) Did the organization solicit any contributions or gifts that were not tax deductible? If "yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	_____	_____	
117) For each of the four largest programs services offered by the organization, prepare a statement which fully describes the services provided, the number of persons benefitted and other achievements of the program. Section 501(c)(3) and (4) organizations must also identify the amount of any grants paid to others as part of the program.	_____		_____
118) Complete the following schedule for all officers, directors, trustees and key employees of the organization as of the last day of the tax year.	_____		_____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)
(EXPANDED VERSION)

YES NO N/A

Name, Address & Title	Average Hours Worked Per Week & % of time devoted to A) Fundraising B) Management C) Exempt Purposes	Compensation	Contribution to Employee Benefit Plans	Expense Account and Other Allowances

119) Did any officer, director, trustee or key employee receive \$10,000 or more in compensation from a related entity? _____

120) Did you incur any expenses to influence legislation, lobbying or other political activities during the year ? _____

.1) If yes, provide a schedule of expenses and indicate to which accounts those expenses were posted. _____

.2) Disclose taxes paid during the year for the following: _____
a) excess expenditures to influence legislation
b) disqualifying lobby expenditures
c) political expenditures
d) excess benefit transactions

.3) Has the organization elected to pay the proxy tax? _____

121) Section 501(c)(3) organizations. Did the organization file Form 5678, Election/Revocation of Election by an Eligible § 501(c)(3) Organization to Influence Legislation? _____

122) Section 501(c)(7) organizations (club): _____

.1) Did the organization receive initiation fees or capital contributions? If "yes," indicate the amount. \$ _____ _____

.2) Did the organization receive gross receipts for public use of club facilities? If "yes," indicate the amount. \$ _____ _____

.3) Does the club's governing instrument or any written policy statement provide for discrimination against any person because of race, color, or religion? _____

123) Section 501(c)(12) organizations. Attach a detailed computation of the 85% qualification test, including a detailed listing of gross income received from: (1) members or shareholders and (2) other sources. _____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)
(EXPANDED VERSION)

YES NO N/A

124) Public interest law firms. Attach information describing each case litigated during the year or still in litigation and describe how the litigation will benefit the general public.

125) Does the organization have a taxable first or second-tier subsidiary? If "yes," complete the following:

Name, Address, and TIN of Corporation or Partnership	Percentage of Ownership Interest	Nature of Business Activities	Total Income	End-of-year Assets
1)				
2)				
3)				
4)				
5)				

126) Did the organization have unrelated business taxable income (UBTI) as a result of the operation of a trade or business not related to the organization's exempt function?

Note: UBTI is one of the most critical issues within tax exempt organization reporting. Provide complete information related to your revenue sources to allow proper determination of the income classification.

127) Provide copies of all Schedules K-1 received.

128) Provide a detailed list of the expenses directly related to the UBTI activity.

129) Provide a detailed list and explanation of the allocation method of general expenses allocated to UBTI.

130) Have cash receipts for UBI activities over \$10,000 been reported on Form 8300?

131) How many additional copies of the return are needed? _____

132) Provide a list, including amounts paid by year of contribution, of persons who contributed \$5,000 to the organization. Label each page of the list as "Not Open For Public Inspection".

133) Did the organization comply with the public inspection rules?

134) Did the organization provide a copy of its exemption application and/or Form 990 to anyone who requested it?

135) Provide a list of independant contractors, other than professionals such as attorneys and accountants. Indicate amounts paid, nature of work performed and normal working hours.

136) Did the organization file all necessary Forms 1099, 1098?

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)
(EXPANDED VERSION)

YES NO N/A

200) SECTIONS 501(c)(3), 501(e), (f) & (k) ORGANIZATIONS AND § 4947(a)(1) TRUSTS

201) Did the organization pay compensation in excess of \$50,000 to any employee other than officers, directors and/or trustees? If "yes," complete the following schedule for the five highest paid employees.

Name and Address of Employees Paid More Than \$50,000	Title and Average Hours Per Week Devoted to Position	Compensation	Contributions to Employee Benefit Plans	Expense Account and Other Allowances
1)				
2)				
3)				
4)				
5)				
Total number of other employees paid over \$50,000 _____				

202) Did the organization's board approve all compensation, including fringe benefits, travel and loans to all officers, directors and trustees? If so, provide a copy of the minutes where this action was taken.

203) Did the organization pay any individuals or companies in excess of \$50,000 for professional services? If "yes," complete the following schedule for the five highest paid service providers.

Name and Address of Persons Paid More Than \$50,000	Type of Service	Compensation
Total number of others receiving over \$50,000 for professional services _____		

204) How many employees were on the payroll as of March 12th? _____

205) Provide the actual cash receipts from public support. \$ _____

206) During the tax year, has the organization, either directly or indirectly, engaged in any of the following acts with a trustee, director, principal officer or creator of the organization or any taxable organization or corporation with which such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary? If "yes," provide an explanation of the transaction(s):

.1) Sale, exchange or lease of property?

.2) Lending of money or other extension of credit?

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)
(EXPANDED VERSION)

- | | <u>YES</u> | <u>NO</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| .3) Furnishing of goods, services, or facilities? | _____ | _____ | _____ |
| .4) Payment of compensation or payment or reimbursement of expenses if more than \$1,000. | _____ | _____ | _____ |
| .5) Transfer any part of the organization's income or assets?
If "yes," describe: _____ | _____ | _____ | _____ |
| 207) Does the organization make grants for scholarships, fellowships, student loans, etc.? If "yes," provide a statement explaining how the organization determines that those receiving disbursements from the organization in furtherance of its charitable programs qualify to receive payments. | _____ | _____ | |
| 208) Did the organization directly or indirectly engage in any of the following with any other organization described in § 501(c) (other than § 501(c)(3) organizations) or with any organizations described in § 527 (relating to political organizations): | | | |
| .1) Transfers from the organization to a noncharitable exempt organization of: | | | |
| (a) Cash? | _____ | _____ | _____ |
| (b) Other assets? | _____ | _____ | _____ |
| .2) Other transactions: | | | |
| (a) Sales of assets to a noncharitable exempt organization? | _____ | _____ | _____ |
| (b) Purchases of assets from a noncharitable exempt organization? | _____ | _____ | _____ |
| (c) Rental of facilities or equipment? | _____ | _____ | _____ |
| (d) Reimbursement arrangements? | _____ | _____ | _____ |
| (e) Loans or loan guarantees? | _____ | _____ | _____ |
| (f) Performance of services or membership or fundraising solicitations? | _____ | _____ | _____ |
| .3) Sharing of facilities, equipment, mailing lists or other assets, or paid employees? | _____ | _____ | _____ |
| .4) If the answer to any of the above is "yes," complete the following schedule. | | | |

Amount Involved	Name of Noncharitable Exempt Organization	Description of Transfers, Transactions, and Sharing Arrangements

- 209) Is the organization directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in § 501(c) (other than § 501(c)(3)) or with any organizations described in § 527 (relating to political organizations)? If "yes," complete the following schedule.

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)
(EXPANDED VERSION)

YES NO N/A

Name of Organization	Type of Organization	Description of Relationship

300) PRIVATE SCHOOLS

301) Does the organization have a racially nondiscriminatory policy toward students by statement in its charter, bylaws, other governing instrument, or in a resolution of its governing body? _____

302) Does the organization include a statement of its racially nondiscriminatory policy toward students in all its brochures, catalogues, and other written communications with the public dealing with student admissions, programs, and scholarships? _____

303) Has the organization publicized its racially nondiscriminatory policy through newspaper or broadcast media during the period of solicitation for students, or during the registration period if it has no solicitation program, in a way that makes the policy known to all parts of the general community served? If "yes," provide a description; if "no," provide an explanation. _____

304) Does the organization maintain the following (provide an explanation of any "no" or "n/a" answers):

- .1) Records indicating the racial composition of the student body, faculty, and administrative staff? _____
- .2) Records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis? _____
- .3) Copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships? _____
- .4) Copies of all material used by the organization or on its behalf to solicit contributions? _____

305) Did the organization discriminate by race in any way with respect to (provide an explanation for any "yes" answers):

- .1) Students' rights or privileges? _____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)
(EXPANDED VERSION)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
.2) Admissions policies?	_____	_____	
.3) Employment of faculty or administrative staff?	_____	_____	
.4) Scholarships or other financial assistance?	_____	_____	
.5) Educational policies?	_____	_____	
.6) Use of facilities?	_____	_____	
.7) Athletic programs?	_____	_____	
.8) Other extracurricular activities?	_____	_____	
 306) Did the organization receive any financial aid or assistance from a governmental agency? If "yes," provide a schedule and indicate if the organization's right to such aid has ever been revoked or suspended.	 _____	 _____	
 307) Does the organization certify that it has complied with the applicable requirements of §§ 4.01 through 4.05 of Rev. Proc. 75-50, covering racial nondiscrimination? If "no," provide an explanation.	 _____	 _____	
 400) REVENUE AND SUPPORT			
 401) Provide a schedule listing contributors who, during the tax year, gave (directly or indirectly) money, securities or property with a value totaling at least \$5,000 (exclude individual gifts of less than \$1,000). Provide the donor's name, address, total amount contributed and the date contributed. If the organization is exempt under § 501(c)(7), (8), (10), or (19), substitute \$1,000 for the \$5,000 above and explain the specific purpose and actual use of each gift. For non-cash contributions provide a description of the property and its fair market value.	 _____	 _____	
<hr/>			
 402) Did the organization sell or dispose of any assets (other than inventory) during the tax year? If "yes," provide a schedule listing (sales of publicly traded securities may be aggregated):	 _____	 _____	
<ul style="list-style-type: none"> ● Description of asset ● Date acquired ● How acquired ● Date sold ● Buyer ● Gross sales price ● Cost, other basis, or if donated, value at time acquired (state which) ● Expense of sale ● Improvements made after acquisition ● Depreciation since acquisition 			
 403) Did the organization sponsor any special fund raising events? If "yes," provide a schedule listing the three largest special events conducted, as measured by gross receipts. Describe each of these events and indicate for each event the gross receipts, the amount of contributions included in gross receipts, the gross revenue			

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)
(EXPANDED VERSION)

YES NO N/A

(gross receipts less contributions), the direct expenses, and the net income (gross revenue less direct expenses). Furnish the same information in total figures for all other special events held that are not among the three largest. Indicate the type and number of the events not listed individually (for example, three dances and two raffles). (Provide copies of fundraising materials.)

404) Provide a computation of cost of goods sold for the sale of inventory items.

405) Do you provide written acknowledgment to donors of individual contributions of \$250 or more?

406) Do you provide information on the amount of the deductible donation to donors of *quid pro quo* donations in excess of \$75?

407) If membership dues and contributions have been reported in one income category provide a breakout.

500) EXPENSES

501) For all organizations other than § 501(c)(3) and (4) organizations and § 4947(a)(1) charitable trusts, does the organization desire to allocate expenses under the classifications of expenses related to management/general, program services, and fundraising? If "yes," categorize expenses on the organization's trial balance.

502) Did the organization award any grants or other allocations during the tax year? If "yes," provide a schedule of the following for each class of activity:

- Donee's name and address
- Amount of the grant or allocation
- Relationship of any donee to any person or corporation with an interest in the organization

503) Does the organization provide any of the following benefits to members or dependents (do not include employment-related benefits provided to officers and employees)? If "yes," provide a schedule showing amounts of:

- Death, sickness, hospitalization, or disability benefits
- Unemployment compensation benefits
- Other benefits (describe)

504) Did the organization make payments to affiliates? If "yes," provide a schedule listing the following:

- Name and address of each affiliate receiving payments
- Amount and purpose of the payments

505) For § 501(c)(3),(4) organizations, did the organization evaluate compensation and benefits payments to officers, directors and employees under the excess benefit rules?

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)
(EXPANDED VERSION)

YES NO N/A

506) If the organization incurred joint costs for a combined educational campaign and fundraising solicitation, provide a schedule that allocates the amount incurred among programs services, management and fundraising.

600) BALANCE SHEET

601) Does the organization have any loans receivable (include receivables from officers, directors, trustees and key employees) at year-end? If "yes," provide a schedule showing the following information:

- Borrower's name (identify officers, directors, trustees or key employees)
- Original amount
- Balance due at year end
- Date of note
- Maturity date
- Repayment terms
- Interest rate
- Security provided by the borrower
- Purpose of the loan
- Description and fair market value of the consideration furnished by the lender (for example, cash - \$1,000; or 100 shares of XYZ, Inc. common stock - \$9,000).

602) Does the organization hold any land, buildings or equipment for investment purposes? If "yes," provide a schedule listing the following: Description, cost or other basis, accumulated depreciation, investment in fixed assets held at year-end. Show the cost or other basis, accumulated depreciation, and book value for each asset.

603) Does the organization hold securities or other investments (other than land, buildings and equipment)? If "yes," provide a schedule describing each of these investments held at year-end, including the cost and end of year market value.

604) Did the organization receive contributions or grants that contributors or grantors have designated as payable for one or more future years? If "yes," provide a schedule describing each contribution or grant and indicate the total amount of each item and the amount applicable to each future period.

605) Does the organization have loans payable at year end? If "yes," provide a schedule showing the following information (identify officers, directors, trustees or key employees):

- The name of lender
- Original amount
- Balance due at year end
- Date of note
- Maturity date
- Repayment terms
- Interest rate
- Security provided by the borrower
- Purpose of the loan

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)
(EXPANDED VERSION)

YES NO N/A

- The relationship of the lender to any officer, director, trustee, or key employee of the organization.

606) Did the organization own 50% or greater interest in a taxable corporation or partnership? If yes, provide the name of the organization and describe the nature and amount of any intercompany payments.

COMMENTS OR EXPLANATIONS

QUALIFIED RETIREMENT PLAN ORGANIZER
FORM 5500

This organizer is designed to assist you in gathering the information needed to prepare the Form 5500. Complete the organizer and answer all questions. Should you have questions regarding any items, please call.

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

PLAN NAME _____ PLAN YEAR _____

CONTACT PERSON _____ PHONE # _____ FAX # _____

SPONSOR NAME _____ PLAN # _____

SPONSOR ADDRESS _____ FEDERAL ID# _____

TYPE OF ENTITY _____

PLAN ADMINISTRATOR _____ SPONSOR ID# _____

ADMINISTRATOR ADDRESS _____ ADMINISTRATOR ID# _____

TRUSTEE _____ TRUSTEE ID# _____

TRUSTEE ADDRESS _____

PLAN ATTORNEY _____

INVESTMENT ADVISOR _____

NOTE: Certain narrowly defined terms, such as "key employee" and "highly compensated employee," are explained at the end of this organizer.

	Previously <u>Provided</u>	<u>Attached</u>	<u>N/A</u>
101) If this is the first year in which we are to prepare your 5500 series form, furnish the following items:			
.1) Plan document and adoption agreement and amendments.	_____	_____	_____
.2) Prior three years' summary annual reports.	_____	_____	_____
.3) Most current summary plan descriptions.	_____	_____	_____
.4) Prior three years' independent qualified accountant reports (if applicable).	_____	_____	_____
.5) Prior three years' plan financial statements.	_____	_____	_____
.6) Prior three years' 5500 series forms.	_____	_____	_____
.7) Prior three years' employee census, including balances and vesting information.	_____	_____	_____
.8) Most recent IRS determination letter.	_____	_____	_____
.9) If the plan allows for loans, provide copies of loan documents and amortization schedules.	_____	_____	_____
102) Furnish the following items for the current year:			
.1) Employee census (specimen attached or update attached census from prior year).	_____	_____	_____
.2) Plan financial statements.	_____	_____	_____
.3) If there are no financial statements for the plan, provide the following:			
.a) Recap of receipts and disbursements for all bank accounts.	_____	_____	_____
.b) Reconciled bank statements as of the plan's year-end.	_____	_____	_____
.c) Recaps or copies of all monthly brokerage or investment accounts for the plan year.	_____	_____	_____
.d) Schedule of fair market value of all investments as of the close of the plan year.	_____	_____	_____
.4) Detail of employer contributions for the plan year. Indicate dates accrued and paid or scheduled to be paid.	_____	_____	_____

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

	<u>Previously Provided</u>	<u>Attached</u>	<u>N/A</u>
.5) Form 5500, Schedule A, where a portion or all of the plan is invested in insurance contracts.	_____	_____	_____
.6) Page 1 of the income tax return (Form 1040, Schedule C if sole proprietorship).	_____	_____	_____
.7) Copies of new loan documents.	_____	_____	_____
.8) Copies of Forms 1099-R issued.	_____	_____	_____
.9) Copies of Forms 945.	_____	_____	_____
	<u>YES</u>	<u>NO</u>	<u>N/A</u>
103) Was the plan terminated during the plan year? If "yes," provide a copy of resolution (executed).	_____	_____	
104) Were there any amendments during the plan year? If "yes," provide copies of the amendment(s).	_____	_____	
105) Has the plan been audited by either the Internal Revenue Service or the Department of Labor? If "yes," attach copies of all correspondence.	_____	_____	
106) Have there been any disputed claims or litigation filed or threatened with respect to the plan? If "yes," attach copies of all correspondence.	_____	_____	
107) Was the plan insured by a fidelity bond for loss through fraud or dishonesty? If "yes," complete the following:	_____	_____	
Name of surety company _____			
Amount of bond _____			
108) Was any participant separated from service with a deferred vested benefit during the plan year?	_____	_____	
109) Are there any individuals in the company who have worked more than 1,000 hours who are not considered to be a common law employee (e.g., independent contractor)? If "yes," include these individuals on the employee census form and identify them as "leased or not leased."	_____	_____	_____
110) List officers and owner(s) of company and percentage of ownership:			

NAME	TITLE	OWNERSHIP PERCENTAGE

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

YES NO

- 111) Does any key employee, or any member of the key employee's family, own an interest in any other privately owned business? If yes, complete the following.

EMPLOYEE NAME	RELATIONSHIP TO OWNER	NAME AND TYPE OF ENTITY	OWNERSHIP PERCENTAGE

YES NO N/A

- 112) Do any relatives of any key employee work for the company? If "yes," identify them on the employee census.

- 113) Did all new participants receive a summary plan description?

- 114) Did all terminated participants receive required Forms 1099-R, Statement for Recipients of Total Distributions from Profit-sharing, Retirement Plans, etc.

- 115) Have participants received required annual information about their account balance(s), vested percentage(s) and matching contributions?

- 116) Was the prior year summary annual report for the plan year distributed to participants?

- 117) Has there been any reversion of plan assets to the employer during the plan year?

- 118) Did any service provider receive more than \$5,000 in compensation from the plan during the plan year? If "yes," attach a schedule.

- 119) Has there been a termination of the appointment of any of the following?

__ accountant __ enrolled actuary __ insurance carrier
__ administrator __ investment manager __ trustee or custodian

If "yes," attach explanation(s).

- 120) Did any of the following transactions occur between the plan and any parties-in-interest (e.g., employer, participant, etc.)? If "yes," attach explanation.

- .1) The sale, exchange or leasing of any property.

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

	<u>YES</u>	<u>NO</u>	
.2) The lending of money or other extension or credit (with certain exemptions for plan loans to participants or beneficiaries).	_____	_____	
.3) The furnishing of goods, services, or facilities.	_____	_____	
.4) The transfer to, or use of any plan assets, by or for the benefit of a party-in-interest.	_____	_____	
.5) The plan's acquisition or retention of any employer security or employer property.	_____	_____	
121) Is the plan audited by an independent qualified public accountant? If yes, provide the accountant's opinion and report and complete the following questions concerning transactions during the plan year.	_____	_____	
.1) Did the plan have assets held for investment?	_____	_____	_____
.2) Were any loans or fixed obligations due the plan in default as of the close of the plan year or considered uncollectible?	_____	_____	_____
.3) Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets?	_____	_____	_____
.4) Did the plan engage in any non-exempt transactions with parties-in-interest not reported in the notes to the financial statement?	_____	_____	_____
.5) Did the plan hold qualifying employer securities that are not publicly traded?	_____	_____	_____
.6) Did the plan purchase or receive any nonpublicly traded securities that were not appraised in writing by an unrelated third party within three months prior to their receipt?	_____	_____	_____
.7) Did any person manage plan assets who had a financial interest worth more than 10% in any party providing services to the plan or receive anything of value from any party providing services to the plan?	_____	_____	_____

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

**EMPLOYEE CENSUS
INSTRUCTIONS**

Compensation

For defined contribution plans, contributions and allocations are based upon a definition of compensation which generally will be contained in the plan document. Complete the employee census after indicating below how compensation is defined in your plan.

- | | | | |
|--------------------------|--------------------------|--|----------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | Compensation reported as taxable income for W-2 purposes | |
| <input type="checkbox"/> | <input type="checkbox"/> | Wages paid during the plan year | |
| <input type="checkbox"/> | <input type="checkbox"/> | Compensation before 401(k) deferrals and after section 125 deferrals | |
| <input type="checkbox"/> | <input type="checkbox"/> | Wages accrued during the plan year | |
| <input type="checkbox"/> | <input type="checkbox"/> | Includes bonus <input type="checkbox"/> | Excludes bonus |
| <input type="checkbox"/> | <input type="checkbox"/> | Includes tips <input type="checkbox"/> | Excludes tips |
| <input type="checkbox"/> | <input type="checkbox"/> | Includes commissions <input type="checkbox"/> | Excludes commissions |
| <input type="checkbox"/> | <input type="checkbox"/> | Other _____ | |

Hours of Service

Hours of service may be the basis for determining eligibility to participate in the plan, eligibility to receive an employer contribution and eligibility for vesting. If actual hours are available for the plan year, please provide the actual hours of service. However, if actual hours are not maintained by the employer, you may use the following coding to identify hours of service:

- | | | | | | |
|----------|---------------------|----------|----------------------------|----------|----------------------|
| L | Less than 500 hours | S | Between 499 and 1000 hours | F | 1,000 hours or more. |
|----------|---------------------|----------|----------------------------|----------|----------------------|

Type Codes

Type codes are used in calculating distributions and in preparing various government reports, and may also affect eligibility for certain benefits.

- | Type 1: Employee Status | Type 2: Key or Highly Compensated Employee | Type 3: Marital Status |
|--|--|------------------------|
| 1 = Active | a = Key employee | Y = Married |
| 2 = Terminated | b = Highly compensated | N = Unmarried |
| 3 = Retired | c = Key & highly compensated | |
| 4 = Disabled | d = Family member of key employee | |
| 5 = Ineligible | | |
| 6 = Leave of Absence | | |
| 7 = Deceased | | |
| 8 = Excluded | | |
| 9 = Independent Contractor/Leased | | |
| 10 = Independent Contractor/Not Leased | | |

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

DEFINITIONS

KEY EMPLOYEE

A key employee means any employee who at any time during the current or preceding four years meets any one of the tests described below:

- (1) **Officer Test.** An officer of the employer whose annual compensation is equal to or greater than 50% of the defined benefit dollar limitation (50% = \$65,000 for plan years beginning in 1998). The number of officers to be taken into account is limited to 50. If there are fewer than 50 officers for purposes of this test, the lesser of 10% of total employees or three officers is used for the test. If there are more officers than the limited number, the officers with the highest one-year compensation during the five-year period are used.
- (2) **Compensation Test.** One of the ten employees having annual compensation in excess of \$30,000 and owning the largest interest in the employer. Only consider interests owned by employees to determine the ten largest interests. If two or more employees own the same percentage interest, the employee with the greatest compensation is used for the test.
- (3) **5% Owner Test.** An employee who owns more than 5% of the employer. An individual is considered as owning stock owned directly or indirectly by a spouse, children, grandchildren and parents.
- (4) **1% Owner Test.** An employee who owns more than 1% of the employer and whose annual compensation exceeds \$150,000.

HIGHLY COMPENSATED EMPLOYEE

A highly compensated employee is an employee who (even if now terminated):

- (1) Was a more than 5% owner of the employer during the current or preceding year, or
- (2) Received compensation in excess of \$80,000 in the preceding year. The \$80,000 amount will be adjusted periodically by the Secretary of the Treasury. The employer may elect under Internal Revenue Code ("Code") section 414(q)(1)(B)(ii) to limit the class of employees receiving compensation in excess of \$80,000 who are considered key employees to those who were in the "top-paid group" of employees for such preceding year. Under Code section 414(q)(3), "top-paid group" means generally the top 20 percent of employees when ranked on the basis of compensation.

Comparison of Business Entities

Applicable Factor	C Corporation	S Corporation	Sole Proprietor	Partnership/Limited Liability Partnership	Limited Liability Company
I. Formation					
A. Method	Articles of Incorporation	Articles of Incorporation	None	Partnership agreement	Articles of Organization filed in state recognizing LLCs
B. Owner eligibility					
1. Number of Owners	No limit	75	One	Two or more for limited partnership; one or more general and one or more limited for general partnership	No limit
2. Type of Owners	No limitation	Individuals, estates and certain trusts	Individual	No limitation	No limitation
3. Affiliate Limits	No limitation	Can own up to 100% of the stock of a C corporation and own 100% of the stock of a qualified sub-s subsidiary.	No limitation	No limitation	No limitation
C. Capital Structure					
1. Equity	No limitations (multiple classes permitted)	Only one class of stock	No stock	No limitations (multiple classes)	No limitations
2. Debt	No specific limits on debts/equity ratio	Safe-harbor for debt	No specific limits	No specific limits	No specific limits
D. Status Determination					
1. Election by Entity	No election requirements	Required election	No election requirements	No election requirement but state law filing	No election requirement
2. Owner Consents	None required	Consent required	None required	None required	None required
E. Liability	Limited to shareholder's capital contributions	Limited to shareholder's contribution	Unlimited	General partners jointly and severally liable. Limited partners are generally limited to capital contributions.	Limited to member's capital contributions.

Applicable Factor	C Corporation	S Corporation	Sole Proprietor	Partnership/Limited Liability Partnership	Limited Liability Company
II. Operational Phase					
A. Tax Year	Any year permitted (limit for personal service corporation)	Generally calendar year	Calendar year	Generally calendar year	Generally calendar year
B. Tax on Income	Corporate level	Owner level except QSST, where paid by beneficiary. ¹⁷	Individual level	Owner level	Member level
C. Election	Corporate level	Corporate level	Individual level	Partnership level	Corporate level
D. Allocation of Income/ Deductions	Not permitted (except through multiple equity structure)	Not permitted (except through debt/equity structure)	N/A	Permitted if substantial economic effect	Permitted if substantial economic effect
E. Character of Income/ Deductions	No flow-through to shareholders	Flow-through to shareholders	Flow-through to individual	Flow-through to partners	Flow-through to members
F. Net Operating Losses	No flow-through to shareholders	Flow-through to shareholders (limited to basis)	Flow-through to individual	Flow-through to partners (limited to basis)	Flow-through to members (limited to basis)
G. Net Capital Losses	No flow-through, but five year carry-forward	Flow-through to shareholders	Flow-through to individual	Flow-through to partners	Flow-through to members
H. Effect of Statutory Limitations	Imposed at corporate level	Imposed at shareholder level	Imposed at individual level	Imposed at partner level	Imposed at member level
III. Compensation Arrangements					
1. Fringe Benefits	Shareholder-officers qualify for benefits	Shareholder officers qualify for benefits (medical premiums for greater than 2% shareholders treated like partnership guaranteed payments)	Generally subject to limits applicable to individuals	Limited participation for partners	Limited participation for members
2. Retirement Benefits	Shareholder-officers included in qualified plans	Certain limits on shareholder-officers	Generally subject to limits applicable to individuals	Certain limits applicable to partners	Certain limits applicable to members
3. Reasonable Compensation Limits	Applicable to shareholder-officers	Applicable to shareholder-officers	N/A	Applicable where capital is a material factor	Applicable where capital is a material factor

Applicable Factor	C Corporation	S Corporation	Sole Proprietor	Partnership/Limited Liability Partnership	Limited Liability Company
IV. Transactions with Owners					
A. Distributions of Cash	Dividends to extent of earnings and profits	Dividends, generally no effect until previously taxed income fully recovered (beware transition rules for former C corps)	No effect	No effect except in calculation of basis	No effect except in calculation of basis
B. Distribution of Property	Dividend treatment; gain recognition to entity	Gain recognition to entity	No effect	No gain or loss to entity	No gain or loss to entity
C. Purchase of Owner's Interest					
1. Partial Interest	Probable dividend treatment	Tax-free, but gain for proceeds in excess of basis	Treated as sale of each asset	Capital gain treatment, except ordinary income for ordinary income assets.	Capital gain treatment, except ordinary income for ordinary income assets.
2. Entire Interest	Capital gain treatment with exceptions	Capital gain treatment after basis recovered	Cannot sell entity interest; sale of business is viewed as a sale of each asset	Capital gain treatment, except ordinary income for ordinary income assets and certain § 736 payments	Capital gain treatment except ordinary income for ordinary income assets and certain § 736 payments
D. Property Sales to Entity by Owner	Possible dividend treatment or contributions to capital	Any excess value treated as distribution or contribution	N/A	Any excess value treated as distribution or contribution	Any excess value treated as distribution or contribution
E. Property Sales to Owner by Entity	Possible dividend treatment or contributions to capital	Any excess value treated as distribution or contribution	N/A	Any excess value treated as distribution or contribution	Any excess value treated as distribution or contribution
V. Termination of Entity or Owner Interest					
A. Sale of Interest by Owner to Third Person	Capital gain; no effect on basis of corporation's assets	Capital gain; no effect on basis of corporation's assets	Cannot sell entity interest; sale of business is viewed as a sale of each asset	Capital gain subject to § 751 ordinary income categorization	Capital gain subject to § 751 ordinary income categorization
B. Death of Owner	Estate continues as shareholder; FMV at date of death is basis for shares; no effect on basis of corporation's assets	Estate continues as shareholder; FMV at date of death is basis for shares; no effect on basis of corporation's assets	Estate takes over business	Estate as partner subject to agreement, FMV at date of death basis for interest	Estate as member subject to agreement, FMV at date of death is basis for interest

Applicable Factor	C Corporation	S Corporation	Sole Proprietor	Partnership/Limited Liability Partnership	Limited Liability Company
C. Liquidation Distributions					
1. Effect to Distributor	Gain recognition if appreciated property distributed	Gain recognition if appreciated property distributed	N/A	No gain recognition on asset distributions	No gain recognition on asset distributions
2. Effect to Recipient	Capital gain on excess value received over basis	Capital gain on excess value received over basis	N/A	Substituted basis in assets equal to basis in partnership interest	Substituted basis in assets equal to basis in LLC interest
D. Reorganizations	Tax-free to shareholders if qualifying under reorganization provisions (§ 354 and § 368)	Tax-free to shareholders if qualifying under reorganization provisions (§ 354 and § 368)	N/A	No taxability on merger of partnership	No taxability on merger of LLC
E. Carryover of Tax Attributes	Carryover of tax attributes to successor entity if tax-free reorganization	Carryover of tax attributes to successor entity if tax-free reorganization	N/A	N/A	N/A

VEHICLE RELATED GUIDES

EMPLOYER POLICIES REGARDING USE OF COMPANY VEHICLES

Three policies have been included that may be provided to clients as examples. Policies 1 and 2 are optional for an employer. Policy 3 is required in some form by all employers providing company owned personal use vehicles. The policies should be reviewed to determine if there are conflicts with state or local laws.

EMPLOYEE REPRESENTATION REGARDING USE OF COMPANY VEHICLE AND WORKSHEET TO CALCULATE INCOME FROM PERSONAL USE OF COMPANY VEHICLE

The IRS requires the value of the personal use of employer provided vehicles to be included in the compensation of the employee if the employee does not reimburse the employer. Forms are included for the employer to collect the necessary data from the employee and calculate the value of the personal use.

WORKSHEET TO CALCULATE "INCLUSION AMOUNT" FOR LEASED VEHICLES

The IRS requires lessees of luxury cars to calculate an "inclusion amount" to be included in their gross income. This inclusion amount must be considered by taxpayers who have leased a vehicle for a term of 30 days or more. By means of the inclusion amount, the law attempts to limit the taxpayer's lease payment deductions to the amount that would have been deductible under the limited depreciation rules had the taxpayer purchased the car. Enclosed are various worksheets to calculate the amount includible in income by the lessee for vehicles leased after 1986. Select the appropriate worksheet based on the lease date of the vehicle.

SAMPLE AUTOMOBILE USAGE POLICIES

1. POLICY PROHIBITING ALL PERSONAL USE OF COMPANY VEHICLES

Management has adopted the following policy regarding personal use of Company owned vehicles:

Vehicles owned or leased by this Company are to be used solely for Company business. There shall be no personal use of the vehicles (including commuting to and from work). Individuals driving Company vehicles may have occasions where an incidental stop is necessary between business stops. Such use shall not be considered to be in violation of this policy.

The Company requires that vehicles not in use shall be parked in designated areas on the Company premises. No personal items are to be stored in the vehicles. Company materials and supplies are to be secured in the trunk, lock boxes or within the Company offices.

Keys are to be returned to _____ upon the close of business each day.

SAMPLE AUTOMOBILE USAGE POLICIES

2. POLICY PROHIBITING ALL PERSONAL USE OF COMPANY VEHICLES EXCEPT COMMUTING

Management has adopted the following policy regarding personal use of Company owned vehicles:

For business reasons, certain employees have been designated to drive a Company owned vehicle to and from their residence. This shall be the only authorized personal use of the vehicle. Individuals driving Company vehicles may have occasions where an incidental stop is necessary between business stops. Such use shall not be considered to be in violation of this policy.

The Company requires that no personal items other than incidentals be stored in the vehicle. The vehicle is to be locked each night with work articles stored either in the lock box or trunk during times when the vehicle is not in use.

The Company will compute a daily value for the commuting which will be included in the employee's W-2 at the end of the calendar year. Such amount will be the minimum allowed by federal income tax laws.

Note: Internal Revenue Service regulations require the Company to maintain evidence which would enable the IRS to determine whether use of the vehicle is in accordance with policy maintained by the Company.

SAMPLE AUTOMOBILE USAGE POLICIES

3. POLICY REGARDING CUT-OFF DATE TO CALCULATE THE VALUE OF PERSONAL USE OF COMPANY OWNED VEHICLES

Management has adopted the following policy regarding computation of the taxable value of the personal use of Company owned vehicles:

The personal use of Company vehicles will be computed for the twelve months ending _____ (October 31, November 30 or December 31).

Annually, the Company requires you to provide a complete accounting of the personal use of the vehicle as of _____. The taxable value of the personal use will be computed using the least costly method allowable by tax law.

This income will be considered paid as of _____ and federal, state (if appropriate) and Social Security/Medicare* withholding will be deducted from your _____ pay check. - or

The taxable value and related withholding amounts will be reflected on your W-2 at year-end.

Please address your questions to _____.

- * The company may elect to withhold only Social Security/Medicare. If so the paragraph should read as follows:

This income will be considered paid as of _____ and Social Security/Medicare withholding will be deducted from your _____ pay check.

**EMPLOYEE REPRESENTATION REGARDING
USE OF COMPANY VEHICLE**

The IRS requires employers to provide certain information on their tax return with respect to the vehicles provided to employees. This information is also used to calculate the amount of the fringe benefit to be included in the employee's W-2 income.

The IRS generally requires that written records be maintained to document the business use of vehicles. Since the company policy requires employees to maintain the detailed records, please provide answers to the following questions. If you were provided more than one vehicle that was used during the year, you need to prepare a separate statement for each vehicle.

The completed form must be returned no later than _____ or 100% of the value of the use of the vehicle will be included in your W-2 income. (date)

Description of vehicle _____

Reporting period from _____ to _____

Odometer reading: Beginning _____ Ending _____

Employee Representation

- | | | | |
|-----|--|-------|----|
| (1) | Was the vehicle available for your personal use during off-duty hours? | YES | NO |
| (2) | Did you have another vehicle available for your personal use (this includes a car you own personally)? | YES | NO |
| (3) | Are you an officer or 1% owner of the business? | YES | NO |
| (4) | How many commuting round trips did you make in this vehicle? | _____ | |
| (5) | For the reporting period specified above, please provide the number of miles for each of the following categories: | | |
| | Total commuting miles | _____ | |
| | Total other personal (non-commuting) miles | _____ | |
| | Total personal miles | _____ | |
| | Total business miles | _____ | |
| (6) | Did the employer pay the cost of fuel consumed by this vehicle? | YES | NO |

(EMPLOYEE SIGNATURE)

(DATE)

**WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE**

**EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE
INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE
FOR CALENDAR YEAR 1997**

EMPLOYEE: _____

DESCRIPTION OF VEHICLE: _____

DATE VEHICLE FIRST MADE AVAILABLE TO ANY EMPLOYEE: _____

DATE VEHICLE FIRST MADE AVAILABLE TO THIS EMPLOYEE: _____

Select one method (note limitations on methods II and III)

METHOD I - ANNUAL LEASE VALUE METHOD (For Autos Available 30 Days or More)

Fair market value of vehicle (to be redetermined at the beginning of the fifth year and every four years thereafter).	\$ _____
Annual lease value, per attached chart	\$ _____ ⁽¹⁾
Enter number of days during the year that the vehicle was available	x _____
Divide by number of days in tax year	÷ _____
Prorated annual lease value	_____
Personal use % (personal/total miles, per statement from employee)	x _____%
Personal annual lease value	\$ _____
If fuel is provided by employer, enter personal miles _____ x _____ ⁽²⁾	+ _____
Personal use taxable income	\$ _____

⁽¹⁾For autos available for 7 days or less, multiply the annual lease value by 4. If the availability is more than 7 days, but less than 30, the taxpayer may elect to use the annual lease value without the 4 multiplier.

⁽²⁾If fuel is provided "in kind," the fair market value may be determined based on all facts and circumstances or, alternatively, at 5-1/2 cents per mile if auto usage is within the U.S. Canada, and Mexico. Generally, where fuel is purchased and charged to the employer, the actual cost or reimbursement should be used. If employers with a fleet of 20 or more vehicles, reimburse or allow employees to charge fuel cost, the fleet-average cents per mile may be used. If the fleet employer determines that actual cost or fleet average methods are unreasonable administrative burdens, the 5-1/2 cents per mile may be used.

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**WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE**

**EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE
INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE FOR
CALENDAR YEAR 1997**

METHOD II - STANDARD MILEAGE RATE METHOD

Generally, in order to qualify to use the cents-per-mile method, the vehicle must: (1) be expected to be regularly used in the employer's business throughout the calendar year, (2) be driven at least 10,000 miles per year, and (3) have a fair market value of \$14,600 or less. Once this method is adopted for a particular vehicle, it must be continued until the vehicle no longer qualifies.

Enter personal miles	_____ x \$0.315 =	\$ _____
If fuel is NOT provided by the employer enter personal miles	_____ x \$0.055 =	(_____)
Personal use taxable income		\$ <u> </u>

METHOD III - SPECIAL COMMUTING METHOD

This method may only be used for vehicles covered by a written policy that allows commuting but no other personal use. DO NOT USE if employee is a 1% or more owner, an officer with compensation of \$50,000 or more, or an individual with compensation equaling or exceeding \$100,000.

Number of commuting round trips made	_____
Value per round trip	x <u> \$ 3.00 </u>
Personal use taxable income	\$ <u> </u>

**WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE**

ANNUAL LEASE VALUE TABLE

<u>AUTOMOBILE FAIR MARKET VALUE</u>	<u>ANNUAL LEASE VALUE</u>	<u>AUTOMOBILE FAIR MARKET VALUE</u>	<u>ANNUAL LEASE VALUE</u>
\$ 0- 999	600	22,000-22,999	6,100
1,000- 1,999	850	23,000-23,999	6,350
2,000- 2,999	1,100	24,000-24,999	6,600
3,000- 3,999	1,350	25,000-25,999	6,850
4,000- 4,999	1,600	26,000-27,999	7,250
5,000- 5,999	1,850	28,000-29,999	7,750
6,000- 6,999	2,100	30,000-31,999	8,250
7,000- 7,999	2,350	32,000-33,999	8,750
8,000- 8,999	2,600	34,000-35,999	9,250
9,000- 9,999	2,850	36,000-37,999	9,750
10,000-10,999	3,100	38,000-39,999	10,250
11,000-11,999	3,350	40,000-41,999	10,750
12,000-12,999	3,600	42,000-43,999	11,250
13,000-13,999	3,850	44,000-45,999	11,750
14,000-14,999	4,100	46,000-47,999	12,250
15,000-15,999	4,350	48,000-49,999	12,750
16,000-16,999	4,600	50,000-51,999	13,250
17,000-17,999	4,850	52,000-53,999	13,750
18,000-18,999	5,100	54,000-55,999	14,250
19,000-19,999	5,350	56,000-57,999	14,750
20,000-20,999	5,600	58,000-59,999	15,250
21,000-21,999	5,850		

For vehicles having a fair market value in excess of \$59,999, the Annual Lease Value is equal to:
 $(.25 \times \text{automobile fair market value}) + \500 .

LEASED VEHICLES
WORKSHEET TO CALCULATE INCLUSION AMOUNT

Description of vehicle:_____

Date of lease:_____

Lease term:_____

Fair market value of vehicle at inception of lease:_____

Dollar amount per attached tables. (Select the appropriate
table based on the inception date of the lease.) \$ _____⁽¹⁾

Enter number of days during the year that the vehicle was
leased. x _____

Divide by number of days in tax year. ÷ _____

Prorated dollar amount. \$ _____

Business use % (business/total miles). x _____^{%(2)}

Prorated inclusion amount. \$ _____

⁽¹⁾The dollar amount for the preceding year is used for the last tax year of the lease.

⁽²⁾Use 100% if all expenses are deducted by the employer and the personal use value is added to the employee's income.

Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1993

Fair Market Value of Automobile	Tax Year During Lease *				
	1st	2nd	3rd	4th	5th and Later
Over 514,300	1	1	2	2	3
14,600	3	5	7	9	9
14,900	4	9	13	15	17
15,200	6	13	18	22	25
15,500	8	16	24	29	32
15,800	9	20	30	35	40
16,100	11	24	35	42	48
16,400	13	27	41	49	55
16,700	14	32	46	55	63
17,000	17	36	54	64	73
17,500	20	42	63	75	87
18,000	22	49	72	86	99
18,500	25	55	82	97	112
19,000	28	61	91	108	125
19,500	31	67	100	120	137
20,000	34	74	109	130	150
20,500	37	80	118	142	163
21,000	39	86	128	153	175
21,500	42	92	138	163	189
22,000	47	101	151	181	207
22,500	52	114	170	202	233
23,000	58	127	187	225	259
24,000	64	139	206	247	285
25,000	69	152	224	270	310
26,000	75	164	243	292	335
27,000	81	176	262	313	362
28,000	86	189	280	336	387
29,000	92	201	299	358	412
30,000	98	214	317	380	438
31,000	103	226	336	402	464
32,000	109	239	354	424	490
33,000	115	251	373	446	515
34,000	120	264	391	469	540
35,000	126	276	410	491	566
36,000	132	288	429	513	591
37,000	137	301	447	535	617
38,000	143	314	465	557	643
39,000	149	326	484	579	669
40,000	154	339	502	601	695
41,000	160	351	521	623	720
42,000	166	363	539	646	746
43,000	171	376	558	668	771
44,000	177	388	577	690	796
45,000					
46,000					

* For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile	Tax Year During Lease *				
	1st	2nd	3rd	4th	5th and Later
Over 46,000	183	401	594	713	822
47,000	189	413	613	735	847
48,000	194	426	631	757	874
49,000	200	438	650	779	899
50,000	206	450	669	801	925
51,000	211	463	687	824	950
52,000	217	475	706	846	975
53,000	223	488	724	867	1,002
54,000	228	501	742	890	1,027
55,000	234	513	761	912	1,052
56,000	240	525	780	934	1,078
57,000	245	538	798	956	1,104
58,000	251	550	817	978	1,130
59,000	257	563	835	1,000	1,155
60,000	265	581	863	1,034	1,194
62,000	277	606	900	1,078	1,245
64,000	288	631	937	1,123	1,295
66,000	299	656	974	1,167	1,347
68,000	311	681	1,011	1,211	1,398
70,000	322	706	1,048	1,255	1,450
72,000	333	731	1,085	1,300	1,500
74,000	345	756	1,121	1,345	1,551
76,000	356	781	1,158	1,389	1,603
78,000	367	806	1,195	1,434	1,654
80,000	387	849	1,261	1,510	1,744
85,000	416	911	1,353	1,622	1,871
90,000	444	974	1,445	1,733	1,999
95,000	472	1,036	1,538	1,843	2,128
100,000	515	1,130	1,676	2,010	2,319
110,000	572	1,254	1,861	2,232	2,575
120,000	629	1,379	2,046	2,453	2,831
130,000	685	1,504	2,231	2,674	3,088
140,000	742	1,628	2,416	2,896	3,344
150,000	799	1,753	2,600	3,119	3,599
160,000	856	1,877	2,786	3,340	3,855
170,000	912	2,002	2,971	3,561	4,112
180,000	969	2,127	3,155	3,783	4,368
190,000	1,026	2,251	3,340	4,006	4,623
200,000	1,083	2,376	3,525	4,227	4,879
210,000	1,140	2,500	3,710	4,449	5,135
220,000	1,196	2,625	3,895	4,670	5,392
230,000	1,253	2,749	4,081	4,892	5,647
240,000	1,310	2,874	4,265	5,114	5,903
250,000					

**Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1994**

Fair Market Value of Automobile		Tax Year During Lease *					5th and Later
Over	Not Over	1st	2nd	3rd	4th		
\$14,600	14,900	0	1	1	2	2	2
14,900	15,200	2	5	6	9	9	11
15,200	15,500	4	9	14	17	20	20
15,500	15,800	6	14	21	25	30	30
15,800	16,100	8	19	27	34	39	39
16,100	16,400	10	24	34	42	49	49
16,400	16,700	12	28	41	51	58	58
16,700	17,000	14	33	48	59	68	68
17,000	17,500	17	39	57	70	81	81
17,500	18,000	21	47	68	84	97	97
18,000	18,500	24	55	80	97	113	113
18,500	19,000	28	62	92	111	129	129
19,000	19,500	31	70	104	124	145	145
19,500	20,000	35	78	115	138	161	161
20,000	20,500	39	85	127	152	176	176
20,500	21,000	42	93	138	166	193	193
21,000	21,500	46	101	149	180	208	208
21,500	22,000	49	109	161	193	225	225
22,000	23,000	54	121	178	214	248	248
23,000	24,000	62	136	201	242	280	280
24,000	25,000	69	151	224	270	312	312
25,000	26,000	76	167	247	297	344	344
26,000	27,000	83	182	270	325	376	376
27,000	28,000	90	198	293	352	408	408
28,000	29,000	97	213	317	379	440	440
29,000	30,000	104	229	339	408	471	471
30,000	31,000	111	244	363	435	503	503
31,000	32,000	118	260	385	463	535	535
32,000	33,000	125	276	408	490	567	567
33,000	34,000	132	291	431	518	599	599
34,000	35,000	139	307	454	545	631	631
35,000	36,000	146	322	478	573	662	662
36,000	37,000	153	338	500	601	694	694
37,000	38,000	161	353	523	628	726	726
38,000	39,000	168	368	547	656	757	757
39,000	40,000	175	384	569	684	790	790
40,000	41,000	182	399	593	711	822	822
41,000	42,000	189	415	615	739	854	854
42,000	43,000	196	431	638	766	886	886
43,000	44,000	203	446	661	794	918	918
44,000	45,000	210	462	684	821	950	950
45,000	46,000	217	477	708	849	981	981
46,000	47,000	224	493	730	877	1,013	1,013

*For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile		Tax Year During Lease *					5th and Later
Over	Not Over	1st	2nd	3rd	4th		
47,000	48,000	231	508	754	904	1,045	1,045
48,000	49,000	238	524	776	932	1,077	1,077
49,000	50,000	245	539	800	959	1,109	1,109
50,000	51,000	252	555	822	987	1,141	1,141
51,000	52,000	260	570	845	1,015	1,172	1,172
52,000	53,000	267	585	869	1,042	1,204	1,204
53,000	54,000	274	601	892	1,069	1,236	1,236
54,000	55,000	281	617	914	1,097	1,268	1,268
55,000	56,000	288	632	938	1,125	1,299	1,299
56,000	57,000	295	648	960	1,153	1,331	1,331
57,000	58,000	302	663	984	1,180	1,363	1,363
58,000	59,000	309	679	1,006	1,208	1,395	1,395
59,000	60,000	316	694	1,030	1,235	1,427	1,427
60,000	62,000	327	717	1,065	1,276	1,475	1,475
62,000	64,000	341	748	1,111	1,332	1,538	1,538
64,000	66,000	355	780	1,156	1,387	1,602	1,602
66,000	68,000	369	811	1,202	1,442	1,666	1,666
68,000	70,000	383	842	1,248	1,497	1,730	1,730
70,000	72,000	397	873	1,294	1,553	1,793	1,793
72,000	74,000	412	903	1,341	1,608	1,857	1,857
74,000	76,000	428	935	1,386	1,663	1,921	1,921
76,000	78,000	440	966	1,432	1,718	1,985	1,985
78,000	80,000	454	997	1,478	1,774	2,048	2,048
80,000	85,000	479	1,051	1,559	1,870	2,160	2,160
85,000	90,000	514	1,129	1,674	2,008	2,319	2,319
90,000	95,000	550	1,206	1,789	2,146	2,478	2,478
95,000	100,000	585	1,284	1,904	2,284	2,637	2,637
100,000	110,000	638	1,400	2,077	2,491	2,876	2,876
110,000	120,000	709	1,555	2,307	2,767	3,195	3,195
120,000	130,000	779	1,710	2,537	3,043	3,514	3,514
130,000	140,000	850	1,865	2,767	3,319	3,833	3,833
140,000	150,000	921	2,020	2,997	3,595	4,151	4,151
150,000	160,000	992	2,175	3,228	3,870	4,470	4,470
160,000	170,000	1,062	2,331	3,457	4,147	4,788	4,788
170,000	180,000	1,133	2,486	3,687	4,423	5,107	5,107
180,000	190,000	1,204	2,641	3,917	4,699	5,425	5,425
190,000	200,000	1,274	2,796	4,148	4,974	5,745	5,745
200,000	210,000	1,345	2,951	4,378	5,250	6,063	6,063
210,000	220,000	1,416	3,106	4,608	5,527	6,381	6,381
220,000	230,000	1,487	3,261	4,838	5,803	6,699	6,699
230,000	240,000	1,557	3,416	5,069	6,078	7,019	7,019
240,000	250,000	1,628	3,571	5,299	6,354	7,337	7,337

**Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1995**

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$15,500	\$15,800	4	8	11	13	14
15,800	16,100	7	15	21	25	28
16,100	16,400	10	22	31	37	43
16,400	16,700	13	28	42	50	56
16,700	17,000	16	35	52	62	71
17,000	17,500	20	45	65	78	89
17,500	18,000	26	56	82	98	113
18,000	18,500	31	67	99	119	136
18,500	19,000	36	79	116	139	159
19,000	19,500	41	90	133	159	184
19,500	20,000	46	102	150	179	207
20,000	20,500	52	113	167	200	230
20,500	21,000	57	124	184	220	254
21,000	21,500	62	136	201	240	277
21,500	22,000	67	147	218	261	301
22,000	23,000	75	164	244	291	336
23,000	24,000	86	187	277	332	383
24,000	25,000	96	210	311	373	429
25,000	26,000	106	233	345	413	477
26,000	27,000	117	256	378	454	524
27,000	28,000	127	279	412	495	570
28,000	29,000	138	301	447	535	617
29,000	30,000	148	324	481	575	665
30,000	31,000	159	347	514	616	711
31,000	32,000	169	370	548	657	758
32,000	33,000	179	393	582	698	804
33,000	34,000	190	416	616	738	851
34,000	35,000	200	439	650	778	899
35,000	36,000	211	461	684	819	946
36,000	37,000	221	484	718	860	992
37,000	38,000	232	507	751	901	1,039
38,000	39,000	242	530	785	942	1,086
39,000	40,000	253	552	820	982	1,133
40,000	41,000	263	576	853	1,022	1,180
41,000	42,000	273	599	887	1,063	1,227
42,000	43,000	284	621	921	1,104	1,274
43,000	44,000	294	644	955	1,145	1,320
44,000	45,000	305	667	989	1,185	1,367
45,000	46,000	315	690	1,022	1,226	1,415
46,000	47,000	326	712	1,057	1,266	1,462
47,000	48,000	336	735	1,091	1,307	1,508

*For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
48,000	49,000	346	759	1,124	1,347	1,556
49,000	50,000	357	781	1,158	1,388	1,603
50,000	51,000	367	804	1,192	1,429	1,649
51,000	52,000	378	827	1,226	1,469	1,696
52,000	53,000	388	850	1,260	1,510	1,743
53,000	54,000	399	872	1,294	1,551	1,790
54,000	55,000	409	895	1,328	1,591	1,837
55,000	56,000	419	919	1,361	1,632	1,884
56,000	57,000	430	941	1,395	1,673	1,931
57,000	58,000	440	964	1,429	1,714	1,977
58,000	59,000	451	987	1,463	1,754	2,024
59,000	60,000	461	1,010	1,497	1,794	2,072
60,000	62,000	477	1,044	1,548	1,855	2,142
62,000	64,000	498	1,089	1,616	1,937	2,235
64,000	66,000	519	1,135	1,683	2,018	2,330
66,000	68,000	539	1,181	1,751	2,100	2,423
68,000	70,000	560	1,227	1,819	2,180	2,517
70,000	72,000	581	1,272	1,887	2,262	2,611
72,000	74,000	602	1,318	1,955	2,343	2,704
74,000	76,000	623	1,364	2,022	2,424	2,799
76,000	78,000	644	1,409	2,090	2,506	2,892
78,000	80,000	665	1,455	2,158	2,586	2,986
80,000	85,000	701	1,535	2,277	2,729	3,150
85,000	90,000	753	1,650	2,445	2,932	3,385
90,000	95,000	806	1,763	2,616	3,135	3,619
95,000	100,000	858	1,878	2,784	3,339	3,853
100,000	110,000	936	2,049	3,039	3,643	4,206
110,000	120,000	1,040	2,278	3,377	4,050	4,674
120,000	130,000	1,145	2,506	3,716	4,456	5,144
130,000	140,000	1,249	2,735	4,055	4,862	5,613
140,000	150,000	1,353	2,963	4,394	5,269	6,082
150,000	160,000	1,458	3,191	4,733	5,675	6,551
160,000	170,000	1,562	3,420	5,072	6,081	7,020
170,000	180,000	1,666	3,649	5,410	6,488	7,489
180,000	190,000	1,771	3,877	5,749	6,894	7,958
190,000	200,000	1,875	4,105	6,089	7,300	8,427
200,000	210,000	1,979	4,334	6,427	7,706	8,897
210,000	220,000	2,084	4,562	6,766	8,113	9,365
220,000	230,000	2,188	4,791	7,105	8,518	9,835
230,000	240,000	2,292	5,019	7,444	8,925	10,304
240,000	250,000	2,397	5,247	7,783	9,332	10,772

**Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1996**

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$15,500	\$15,800	3	6	8	10	10
15,800	16,100	5	11	16	19	21
16,100	16,400	7	16	24	27	32
16,400	16,700	10	21	31	37	42
16,700	17,000	12	26	39	46	53
17,000	17,500	15	33	49	58	67
17,500	18,000	19	42	61	73	84
18,000	18,500	23	50	74	88	102
18,500	19,000	27	59	86	104	119
19,000	19,500	31	67	99	119	136
19,500	20,000	35	75	112	134	154
20,000	20,500	38	84	125	149	171
20,500	21,000	42	93	137	164	189
21,000	21,500	46	101	150	179	207
21,500	22,000	50	110	162	194	225
22,000	23,000	56	122	182	217	250
23,000	24,000	64	139	207	247	286
24,000	25,000	71	157	232	277	320
25,000	26,000	79	174	257	308	355
26,000	27,000	87	191	282	338	390
27,000	28,000	95	207	308	369	425
28,000	29,000	103	224	333	399	460
29,000	30,000	110	242	358	429	495
30,000	31,000	118	259	383	459	531
31,000	32,000	126	276	408	490	565
32,000	33,000	134	293	433	520	600
33,000	34,000	141	310	459	550	635
34,000	35,000	149	327	484	581	670
35,000	36,000	157	344	509	611	705
36,000	37,000	165	361	535	641	740
37,000	38,000	172	378	560	672	775
38,000	39,000	180	395	585	702	810
39,000	40,000	188	412	611	732	844
40,000	41,000	196	429	636	762	880
41,000	42,000	203	446	661	793	915
42,000	43,000	211	463	687	822	950
43,000	44,000	219	480	712	853	985
44,000	45,000	227	497	737	883	1,020
45,000	46,000	235	514	762	914	1,054
46,000	47,000	242	531	788	944	1,089
47,000	48,000	250	548	813	974	1,125

*For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
48,000	49,000	258	565	838	1,005	1,159
49,000	50,000	266	582	863	1,035	1,195
50,000	51,000	273	599	889	1,065	1,230
51,000	52,000	281	616	914	1,096	1,264
52,000	53,000	289	633	939	1,126	1,299
53,000	54,000	297	650	964	1,157	1,334
54,000	55,000	304	668	989	1,186	1,370
55,000	56,000	312	684	1,015	1,217	1,404
56,000	57,000	320	701	1,040	1,247	1,440
57,000	58,000	328	718	1,066	1,277	1,474
58,000	59,000	336	735	1,091	1,307	1,509
59,000	60,000	343	753	1,115	1,338	1,544
60,000	62,000	355	778	1,154	1,383	1,597
62,000	64,000	370	812	1,205	1,443	1,667
64,000	66,000	386	846	1,255	1,504	1,737
66,000	68,000	402	880	1,305	1,565	1,807
68,000	70,000	417	914	1,356	1,626	1,876
70,000	72,000	433	948	1,406	1,686	1,947
72,000	74,000	448	982	1,457	1,747	2,016
74,000	76,000	464	1,016	1,508	1,807	2,086
76,000	78,000	479	1,050	1,558	1,868	2,156
78,000	80,000	495	1,084	1,609	1,928	2,226
80,000	85,000	522	1,144	1,697	2,034	2,349
85,000	90,000	561	1,229	1,823	2,186	2,523
90,000	95,000	600	1,314	1,950	2,337	2,698
95,000	100,000	638	1,400	2,075	2,489	2,873
100,000	110,000	697	1,527	2,265	2,716	3,135
110,000	120,000	774	1,697	2,518	3,019	3,485
120,000	130,000	852	1,868	2,770	3,322	3,834
130,000	140,000	930	2,038	3,023	3,624	4,185
140,000	150,000	1,007	2,208	3,276	3,927	4,534
150,000	160,000	1,085	2,378	3,529	4,230	4,884
160,000	170,000	1,163	2,548	3,781	4,533	5,234
170,000	180,000	1,240	2,719	4,033	4,837	5,583
180,000	190,000	1,318	2,889	4,286	5,139	5,933
190,000	200,000	1,396	3,059	4,539	5,442	6,282
200,000	210,000	1,473	3,230	4,791	5,745	6,632
210,000	220,000	1,551	3,400	5,044	6,047	6,982
220,000	230,000	1,629	3,570	5,296	6,351	7,332
230,000	240,000	1,706	3,740	5,550	6,653	7,681
240,000	250,000	1,784	3,911	5,801	6,956	8,032

**Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1997**

Fair Market Value of Automobile	Tax Year During Lease *				
	1st	2nd	3rd	4th	5th and Later
Over					
Not Over					
\$15,800	1	5	5	8	10
16,100	4	10	13	18	21
16,400	6	15	22	27	32
16,700	9	20	30	36	44
17,000	12	28	40	49	58
17,500	16	37	53	65	77
18,000	20	46	66	82	95
18,500	24	55	80	97	114
19,000	28	64	93	113	132
19,500	32	73	106	129	151
20,000	36	82	120	145	169
20,500	40	91	133	161	187
21,000	45	99	147	177	205
21,500	49	108	160	193	224
22,000	55	122	180	216	252
23,000	63	140	206	249	288
24,000	71	158	233	280	326
25,000	79	176	259	313	362
26,000	88	193	287	344	399
27,000	96	211	313	377	435
28,000	104	229	340	408	473
29,000	112	247	366	441	509
30,000	120	265	393	472	546
31,000	128	283	420	504	583
32,000	137	301	446	536	620
33,000	145	319	472	568	657
34,000	153	337	499	600	693
35,000	161	355	526	631	731
36,000	169	373	552	664	767
37,000	178	391	578	696	804
38,000	186	409	605	727	841
39,000	194	427	632	759	878
40,000	202	445	658	791	915
41,000	210	463	685	823	951
42,000	218	481	712	854	989
43,000	227	498	739	886	1,026
44,000	235	516	765	919	1,062
45,000	243	534	792	951	1,098
46,000	251	552	819	982	1,136
47,000	259	570	845	1,015	1,172
48,000	268	588	871	1,047	1,209
49,000					

* For the last tax year of the lease, use the dollar amount for the preceding year

Fair Market Value of Automobile	Tax Year During Lease *				
	1st	2nd	3rd	4th	5th and Later
Over					
Not Over					
49,000	276	606	898	1,078	1,246
50,000	284	624	925	1,110	1,282
51,000	292	642	951	1,142	1,320
52,000	300	660	978	1,174	1,356
53,000	308	678	1,004	1,206	1,394
54,000	317	695	1,032	1,237	1,430
55,000	325	713	1,058	1,270	1,467
56,000	333	732	1,084	1,301	1,504
57,000	341	750	1,110	1,334	1,540
58,000	349	768	1,137	1,365	1,578
59,000	358	785	1,164	1,397	1,615
60,000	370	812	1,204	1,445	1,670
62,000	386	848	1,257	1,509	1,743
64,000	403	884	1,310	1,573	1,817
66,000	419	920	1,363	1,637	1,890
68,000	435	956	1,417	1,700	1,964
70,000	452	991	1,470	1,764	2,038
72,000	468	1,027	1,524	1,827	2,112
74,000	484	1,063	1,577	1,891	2,186
76,000	501	1,099	1,630	1,955	2,259
78,000	517	1,135	1,683	2,019	2,333
80,000	546	1,198	1,776	2,130	2,462
85,000	587	1,287	1,909	2,291	2,645
90,000	627	1,377	2,042	2,450	2,830
95,000	668	1,467	2,175	2,609	3,014
100,000	730	1,601	2,375	2,848	3,290
110,000	812	1,780	2,641	3,167	3,659
120,000	893	1,960	2,907	3,486	4,027
130,000	975	2,139	3,173	3,805	4,395
140,000	1,057	2,318	3,439	4,125	4,763
150,000	1,139	2,498	3,704	4,444	5,131
160,000	1,221	2,677	3,971	4,762	5,500
170,000	1,302	2,857	4,236	5,082	5,868
180,000	1,384	3,036	4,503	5,400	6,237
190,000	1,466	3,215	4,769	5,719	6,605
200,000	1,548	3,394	5,035	6,039	6,973
210,000	1,630	3,574	5,300	6,358	7,341
220,000	1,712	3,753	5,567	6,676	7,710
230,000	1,793	3,932	5,833	6,996	8,078
240,000	1,875	4,112	6,099	7,314	8,446
250,000					

**Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1998**

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$15,800	16,100	1	5	8	12	14
16,100	16,400	4	10	16	22	25
16,400	16,700	6	15	25	31	36
16,700	17,000	9	20	33	41	47
17,000	17,500	12	28	43	53	62
17,500	18,000	16	37	56	70	80
18,000	18,500	20	46	70	85	99
18,500	19,000	24	55	83	101	117
19,000	19,500	28	64	96	117	136
19,500	20,000	32	73	110	133	154
20,000	20,500	36	82	123	149	173
20,500	21,000	40	91	136	165	191
21,000	21,500	45	99	150	181	209
21,500	22,000	49	108	163	197	228
22,000	23,000	55	122	183	221	255
23,000	24,000	63	140	210	252	292
24,000	25,000	71	158	236	285	329
25,000	26,000	79	176	263	316	366
26,000	27,000	88	193	290	348	403
27,000	28,000	96	211	317	380	439
28,000	29,000	104	229	343	412	477
29,000	30,000	112	247	370	444	513
30,000	31,000	120	265	396	476	550
31,000	32,000	128	283	423	508	587
32,000	33,000	137	301	449	540	624
33,000	34,000	145	319	476	571	661
34,000	35,000	153	337	502	604	697
35,000	36,000	161	355	529	635	735
36,000	37,000	169	373	556	667	771
37,000	38,000	178	391	582	699	808
38,000	39,000	186	409	608	731	845
39,000	40,000	194	427	635	763	882
40,000	41,000	202	445	662	794	919
41,000	42,000	210	463	688	827	955
42,000	43,000	218	481	715	859	992
43,000	44,000	227	498	742	891	1,028
44,000	45,000	235	516	769	922	1,066
45,000	46,000	243	534	795	955	1,102
46,000	47,000	251	552	822	986	1,140
47,000	48,000	259	570	849	1,018	1,176

* For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
49,000	50,000	276	606	901	1,082	1,230
50,000	51,000	284	624	928	1,114	1,286
51,000	52,000	292	642	955	1,145	1,324
52,000	53,000	300	660	981	1,178	1,360
53,000	54,000	308	678	1,008	1,209	1,398
54,000	55,000	317	695	1,035	1,241	1,434
55,000	56,000	325	713	1,062	1,273	1,471
56,000	57,000	333	732	1,087	1,305	1,508
57,000	58,000	341	750	1,114	1,337	1,544
58,000	59,000	349	768	1,140	1,369	1,582
59,000	60,000	358	785	1,168	1,400	1,619
60,000	62,000	370	812	1,207	1,449	1,674
62,000	64,000	386	848	1,261	1,512	1,747
64,000	66,000	403	884	1,313	1,577	1,821
66,000	68,000	419	920	1,367	1,640	1,894
68,000	70,000	435	956	1,420	1,704	1,968
70,000	72,000	452	991	1,474	1,767	2,042
72,000	74,000	468	1,027	1,527	1,832	2,115
74,000	76,000	484	1,063	1,580	1,896	2,189
76,000	78,000	501	1,099	1,633	1,959	2,263
78,000	80,000	517	1,135	1,686	2,023	2,337
80,000	85,000	546	1,198	1,779	2,134	2,466
85,000	90,000	587	1,287	1,913	2,294	2,649
90,000	95,000	627	1,377	2,046	2,453	2,834
95,000	100,000	668	1,467	2,178	2,613	3,018
100,000	110,000	730	1,601	2,378	2,852	3,294
110,000	120,000	812	1,780	2,644	3,172	3,662
120,000	130,000	893	1,960	2,910	3,490	4,031
130,000	140,000	975	2,139	3,176	3,810	4,398
140,000	150,000	1,057	2,318	3,443	4,128	4,767
150,000	160,000	1,139	2,498	3,708	4,447	5,135
160,000	170,000	1,221	2,677	3,974	4,766	5,504
170,000	180,000	1,302	2,857	4,240	5,085	5,872
180,000	190,000	1,384	3,036	4,506	5,404	6,241
190,000	200,000	1,466	3,215	4,772	5,724	6,608
200,000	210,000	1,548	3,394	5,039	6,042	6,977
210,000	220,000	1,630	3,574	5,304	6,361	7,345
220,000	230,000	1,712	3,753	5,570	6,680	7,714
230,000	240,000	1,793	3,932	5,837	6,999	8,082
240,000	250,000	1,875	4,112	6,102	7,318	8,450

Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Electric Automobiles with a Lease Term
Beginning in Calendar Year 1998

Fair Market Value of Automobile		Tax Year During Lease *				
Over	Not Over	1st	2nd	3rd	4th and Later	5th
\$47,000	48,000	5	11	18	21	23
48,000	49,000	13	29	45	52	60
49,000	50,000	21	47	71	85	96
50,000	51,000	29	65	98	116	134
51,000	52,000	38	83	124	148	171
52,000	53,000	46	101	151	180	207
53,000	54,000	54	119	177	212	244
54,000	55,000	62	137	204	244	281
55,000	56,000	70	155	231	275	318
56,000	57,000	79	172	258	307	355
57,000	58,000	87	190	284	340	391
58,000	59,000	95	208	311	372	428
59,000	60,000	103	226	338	403	465
60,000	62,000	115	253	378	451	520
62,000	64,000	132	289	430	515	594
64,000	66,000	148	325	484	578	668
66,000	68,000	164	361	537	643	741
68,000	70,000	181	396	591	706	815
70,000	72,000	197	432	644	770	888
72,000	74,000	214	468	697	834	962
74,000	76,000	230	504	750	898	1,035
76,000	78,000	246	540	803	962	1,109
78,000	80,000	263	576	856	1,025	1,183
80,000	85,000	291	639	949	1,137	1,312
85,000	90,000	332	728	1,083	1,296	1,496
90,000	95,000	373	818	1,215	1,456	1,681
95,000	100,000	414	908	1,348	1,615	1,865
100,000	110,000	475	1,042	1,548	1,855	2,141
110,000	120,000	557	1,221	1,814	2,174	2,509
120,000	130,000	639	1,401	2,080	2,492	2,878
130,000	140,000	721	1,580	2,346	2,812	3,245
140,000	150,000	803	1,759	2,612	3,131	3,614
150,000	160,000	884	1,939	2,878	3,450	3,982
160,000	170,000	966	2,118	3,144	3,769	4,350
170,000	180,000	1,048	2,297	3,410	4,088	4,719
180,000	190,000	1,130	2,477	3,676	4,406	5,087
190,000	200,000	1,212	2,656	3,942	4,726	5,455
200,000	210,000	1,293	2,835	4,209	5,044	5,824
210,000	220,000	1,375	3,015	4,474	5,364	6,191
220,000	230,000	1,457	3,194	4,740	5,683	6,560
230,000	240,000	1,539	3,373	5,006	6,002	6,928
240,000	250,000	1,621	3,552	5,273	6,320	7,297

* For the last tax year of the lease, use the dollar amount for the preceding year.

USE OF THE S CORPORATION SHAREHOLDER BASIS SCHEDULE

The shareholder basis schedule is a tool to assist the tax practitioner in determining a shareholder's basis in his/her shares in any given year. Two versions are provided, a short version and a long version. The practitioner should select whichever best suits the situation. Please be aware that K-1 line #/descriptions are subject to change from year to year.

Basis will determine how much loss a shareholder can recognize on his or her individual return. Losses can be used to the extent of basis in capital as well as basis in loans from the shareholder to the corporation. Capital basis should be monitored when anticipating a loss pass-through to the shareholder and when distributions are planned. Generally, distributions will be nontaxable to the shareholders up to their individual capital basis unless the corporation has earnings and profits from either operating as a C corporation, operating as an S corporation prior to 1983, or from a merger with another corporation that had earnings and profits. If the capital basis and earnings and profits are exhausted, distributions become taxable as capital gain distributions.

Loan basis is important not only because of its impact on loss passthrough, but because repayments of shareholder loans can, and often do, produce taxable income to the shareholder. The IRS' position is that income from loan repayment is calculated on a ratio of loan basis to book value at the time of loan repayment. Basis in loans is rebuilt by income recognized by the shareholder. This is only for losses that reduced loan basis during taxable years beginning after December 31, 1982.

NOTE--These basis schedules assume an election has been made to decrease basis by the ordinary loss or other item of loss or deduction and depletion before decrease by nondeductible noncapital expenses. When the election is made, final regulations require nondeductible expenses and depletion in excess of basis to be carried forward and reduce basis in succeeding taxable years.

NOTE--SBJPA 1996 requires the stepped up basis in the stock in an S corporation acquired from a decedent to be reduced by the extent to which the value of the stock is attributable to items consisting of IRD. This basis rule is comparable to the present-law partnership rule. This provision applies with respect to decedents dying after August 21, 1996.

S CORPORATION SHAREHOLDER BASIS SCHEDULE
SHORT VERSION

Shareholder Name _____ Year Ended _____
Corporation Name _____
Shares at Year End _____ Ownership Percentage _____

	<u>STOCK</u>	<u>LOANS</u>
Basis at beginning of year ***	_____	_____
PLUS		
Non-separately stated income	_____	
Separately stated income items	_____	
Non-taxable income, not including book/tax timing differences	_____	
50% of ITC recapture	_____	
New loans to S corporation		_____
Additional stock/paid-in-capital investment	_____	
MINUS		
Loan repayments to shareholder		(_____)
Gain recognized on debt repayment in excess of basis		_____
Non-dividend distributions	(_____)	
PLUS		
Gain recognized for non-dividend distributions in excess of basis	_____	
Basis for current year loss	_____ *	
MINUS		
Non-separately stated loss	(_____)	(_____)
Separately stated losses and deductions	(_____)	(_____)
Prior year(s) loss carryover utilized in current year	(_____)	(_____)
Non-deductible expenses, not including book/tax timing differences****	(_____)	
Depletion adjustment****	(_____)	
Remaining basis	_____	
Net increase for the year**	_____	_____
Basis at end of year	_____ *	_____

* Basis cannot be less than zero. Any unused losses and deductions should be reflected on the attached schedule of carryover losses.

** Net increase for the year represents the excess of all increases to basis because of income and net of all decreases for deductible and nondeductible losses and distributions.

*** Basis in stock is calculated on a per share/per day basis. Each block of stock must be accounted for separately. Special rules apply if one block of stock has an excess negative adjustment. See final regulations.

**** This basis schedule assumes the shareholder made the election to decrease basis by ordinary loss or other item of loss or deduction and depletion before decrease by nondeductible, noncapital expenses. When the election is made, final regulations require nondeductible expenses and depletion in excess of basis to be carried forward and reduce basis in succeeding taxable years.

S CORPORATION SHAREHOLDER BASIS SCHEDULE
SHORT VERSION

Final regulations are silent as to the carryover of nondeductible items when the election is not made, but presumably these items are not carried forward.

CARRYOVER LOSSES

	Deductible	Nondeductible	Total
Balance at beginning of year			
Additional excess losses			
Prior year(s) carryover used in current year	()	()	()
Balance at end of year			

S CORPORATION SHAREHOLDER BASIS SCHEDULE **LONG VERSION**

Corporation Name _____ ID # _____

Shareholder Name _____ SS # _____

Year
of Shares at year end
Ownership Percentage

STOCK BASIS

(unless otherwise noted, all line references refer to this form)

1. Beginning of year
2. Addition investments
3. Adjustments +(-)
- 4.A Current year ordinary income (from K-1, line 1)
- 4.B Current year other income (from K-1, lines 2-6,17, 18)
- 4.C Subtotal of lines 1-4.B
- 4.D Nondividend distributions (not to exceed Line 4.C. Excess to line 28.C)
5. Subtotal of Lines 1 - 4.D
- 6.A Current year ordinary loss (K-1, Line 1) proratable
- 6.B Current year other deductions (from K-1, Lines 2 - 10) proratable (6.A & 6.B losses not to exceed Line 5)
- 6.C Nondeductible expenses, K-1, Line 19 (not to exceed items 5 - 6.B)
7. Subtotal of Lines 5 - 6C
8. Deductible loss carryover (Line 26.D pr. yr. not to exceed Line 7)
9. Nondeductible loss carryover (Line 27.D pr. yr. not to exceed Line 7 minus 8)
10. Net basis
11. Loan restoration (net increase of items 4.A - 9)
12. Capital basis year end (Line 10 less 11)

()	()	()
()	()	()
()	()	()
()	()	()
()	()	()
()	()	()

S CORPORATION SHAREHOLDER BASIS SCHEDULE **LONG VERSION**

LOANS FROM SHAREHOLDER

13. Beginning of year (Line 16, prior yr. schedule)
14. Additions
15. Payments
16. Balance end of year

()	()	()

BASIS IN LOANS FROM SHAREHOLDER

17. Beginning of year (Line 24 prior yr. schedule)
18. Restoration of basis line (Line 11)
19. Additions. (Line 14)
20. Payments. (Line 15)
21. Subtotal (Lines 17 - 20)
- 22.A Excess loss from Line 6.A or 6.B (ordinary or other deductible losses)
- 22.B Excess loss from Line 6.C (other nondeductible expenses)
- 22.C Subtotal of 22.A & 22.B (not to exceed Line 21) (excess to Line 26.A or 27.A)
- 23.A Deductible loss carryover applied to loans (not to exceed 21 less 22.C and 23.A)
- 23.B Nondeductible loss carryover applied to loans (not to exceed 21 less 22.C)
24. Loan basis end of year (line 21 - 23.B)

Year

()	()	()
()	()	()

25. TOTAL TAX BASIS - STOCK & LOANS (Line 12 plus Line 24)

--	--	--

DEDUCTIBLE CARRYOVERS

- 26.A Unused loss and deductions from above
- 26.B Deductible loss carryover (prior year schedule, Line 26.D)
- 26.C Deductible loss used this year (Line 8 plus 23.A)
- 26.D Deductible loss carryover (Line 26.A plus 26.B minus 26.C)

()	()	()

NONDEDUCTIBLE CARRYOVERS

- 27.A Unused nondeductible loss and deductions from above
- 27.B Nondeductible loss carryover (prior year schedule, Line 27D)
- 27.C Nondeductible losses used this year (Line 9 plus 23.B)
- 27.D Nondeductible loss carryover (Line 27.A plus 27.B minus 27.C)

()	()	()

S CORPORATION SHAREHOLDER BASIS SCHEDULE
LONG VERSION

INFORMATION NOT INCLUDED IN K-1

- 28.A Ordinary income from loan payment
- 28.B Capital gain income from loan payment
- 28.C Capital gain distribution

FOOTNOTES

Line Reference

- Basis is determined on a per share, per day basis. Each block of stock must be accounted for separately. Special rules apply if one block of stock has an excess negative adjustment. See final regulations.
- 3 Other adjustments necessary to adjust basis would include among other items, a reduction in basis due to gifting some of the stock, elimination of a shareholder due to change in ownership or as a result of the death of a shareholder.
- 4.C Any nondividend distribution in excess of basis in stock is considered as sale of stock and is ordinarily capital gain depending on the holding period. (Short term or long term). Report on Line 28.C.
- 6.C This basis schedule assumes the shareholder made the election to decrease basis by ordinary loss or other item of loss or deduction and depletion before decrease by nondeductible, noncapital expenses. When the election is made, final regulations require nondeductible expenses and depletion in excess of basis to be carried forward and reduce basis in succeeding taxable years.
- 6.A & B Total of these two lines should not exceed Line 5. If over, take excess to Line 22.A or 22.B.
- 11 Basis in indebtedness increases only if there is a net increase in a shareholder's basis. A net increase results if all income items of section 1367(a)(1) exceed the items described in section 1367(a)(2). These restoration rules apply only to indebtedness held by a shareholder as of the beginning of the taxable year. The indebtedness basis can not exceed the adjusted basis in the indebtedness (without reductions of 1367(b)) as of the beginning of the year.
- 12 Stock basis can not be less than zero.
- 20 If loan repayment exceeds loan basis, the gain should be shown on Line 28.A or B. Only the basis attributable to the repayment should be shown on this line.
- 22.A/26.A Line 22.A should not exceed Line 21. Any excess to Line 26.A.
- 22.B/27.A Line 22.B should not exceed Line 21 less Line 22.A. Any excess to Line 27.A.
- 24 Loan basis of shareholder should never be less than zero.

PASSIVE ACTIVITY CHECKLIST

1998

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

Individuals, trusts (other than grantor trusts), estates, personal service corporations, and closely held corporations are subject to passive activity rules. Limitations on losses or credits from activities operated by partnerships and S corporations are applied at the level of the partners and shareholders.

		<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100)	ACTIVITIES			
101)	Account for all activities.	_____	_____	_____
102)	Determine that all activities are grouped according to appropriate economic unit based on facts and circumstances:			
	.1) Similarities and differences in types of business.	_____	_____	_____
	.2) Extent of common control.	_____	_____	_____
	.3) Extent of common ownership.	_____	_____	_____
	.4) Geographic location.	_____	_____	_____
	.5) Interdependencies between activities.	_____	_____	_____
103)	For rental activities consider that:			
	.1) A rental activity may not be grouped with a trade or business activity unless one activity is insubstantial in relation to the other. Note "same proportionate ownership" exception (Reg. § 1.469-4 (d)(1)).	_____	_____	_____
	.2) An activity involving the rental of real property and an activity involving the rental of personal property (other than personal property provided in connection with the real property) cannot be treated as a single activity.	_____	_____	_____
104)	Consider the six exceptions to the definition of "rental activity" (Reg. § 1.469-1T(e)(3)(ii)).	_____	_____	_____
105)	Consider the exception for taxpayers who materially participate in real property trade or businesses (§ 469(c)(7)).	_____	_____	_____
	.1) Determine if the taxpayer satisfies the tests in Reg. § 1.469-9(c).	_____	_____	_____
	.2) Determine the taxpayer's real property trade or businesses.	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST

1998

		<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
	.3) Determine whether rental real estate should be treated as a single activity or separately (Reg. § 1.469-9(g)).	_____	_____	_____
106)	Consider that aggregation elections made under Reg. § 1.469-4T(k)(3) may no longer be applicable/binding/appropriate.	_____	_____	_____
107)	Consider whether the grouping of activities is consistent with prior year unless the original grouping was clearly inappropriate, subject to the § 469(c)(7) rules, or there has been a material change in facts and circumstances. Reg. § 1.469-4(e).	_____	_____	_____
108)	Consider that taxpayers who are limited partners in activities described in § 465(c)(1) may not group that activity with any other activity except as provided in Reg. § 1.469-4(d)(3).	_____	_____	_____
109)	Consider that partnerships and S Corps must group their activities in accordance with the Reg. §§ 1.469-4(d) and 1.469-9(h).	_____	_____	_____
110)	Consider that partners and S Corp shareholders must group activities from various flow-through entities and directly conducted activities in accordance with the rules of Reg. §§ 1.469-4(d)(5) and 1.469-9(h).	_____	_____	_____
111)	Determine if any activity is specifically excluded from the definition of "passive activity" (e.g., trading in personal property, or a working interest in oil and gas property owned directly or through an entity that does not limit taxpayer's liability).	_____	_____	_____
112)	Consider whether an activity involving rental of the taxpayer's residence during the taxable year should be excluded from the passive loss rules.	_____	_____	_____
113)	Determine if an activity is subject to the "publicly traded partnership" rules, and report separately.	_____	_____	_____
114)	Determine if Form 8582 is required.	_____	_____	_____
200)	PORTFOLIO INCOME			
201)	Separate portfolio income from passive income or loss.	_____	_____	_____
202)	Separately state expenses that are clearly and directly allocable to portfolio income.	_____	_____	_____
203)	Review for self-charged interest. If self-charged interest is present:			
	.1) Consider whether the taxpayer's interest income should be recharacterized as passive activity income.	_____	_____	_____

1998

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PASSIVE ACTIVITY CHECKLIST

1998

		<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
500)	ACTIVE PARTICIPATION BY AN INDIVIDUAL IN RENTAL REAL ESTATE ACTIVITY			
501)	Consider the \$25,000 special allowance for rental real estate losses and credits.	_____	_____	_____
502)	Determine that, under the \$25,000 special allowance rule, the taxpayer actively participated both in the year the loss arose and the year in which the loss is allowed.	_____	_____	_____
503)	Consider the special allowance for the rehabilitation credit and the low income housing credit from rental real estate activities—note that active participation is not required for these credits.	_____	_____	_____
600)	DISPOSITIONS			
601)	Determine if the taxpayer disposed of, in a fully taxable transaction, his entire interest in a passive activity to an unrelated party at arm's length, or as a full abandonment of the entire interest. If so:	_____	_____	_____
	.1) Consider the rules for the disposition of an interest in a passthrough entity.	_____	_____	_____
	.2) After considering ordering rules, deduct in full any loss allocable to such activity including suspended losses from prior years.	_____	_____	_____
	.3) Consider the suspended loss utilization rules for the installment sale of an entire interest.	_____	_____	_____
602)	Consider Reg. § 1.469-4(g) regarding a disposition of substantially all of an activity. Determine with reasonable certainty:	_____	_____	_____
	.1) The amount of prior deductions and credits disallowed under passive rules allocable to the disposed activity; and	_____	_____	_____
	.2) The amount of gross income and deductions allocable to the disposed activity.	_____	_____	_____
603)	Consider the treatment of suspended losses in dispositions characterized as nontaxable exchanges.	_____	_____	_____
604)	At death of taxpayer, deduct suspended losses to the extent such losses exceed the amount by which the activity's basis is increased pursuant to § 1014.	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST

1998

		<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
605)	Determine that the donee's basis of a passive activity interest has been increased by the amount of any related suspended losses, limited to fair market value. Note that the donor may not claim the suspended losses.	<hr/>	<hr/>	<hr/>
606)	For pre-1987 installment sales, consider whether post-1986 gain recognized is eligible to be treated as passive income.	<hr/>	<hr/>	<hr/>
607)	Determine ability to deduct passive credits. Note that although credits are not "freed-up" on disposition, the taxpayer may make an election to increase basis (§ 469(j)(9)).	<hr/>	<hr/>	<hr/>
700)	SPECIAL CHARACTERIZATION OF INCOME RULES			
701)	Determine if gain from the disposition of an interest in an activity is passive in the year of disposition (12 month rule). Note special rules for dealers.	<hr/>	<hr/>	<hr/>
702)	Determine the character of gain on the disposition of substantially appreciated property formerly used in a nonpassive activity.	<hr/>	<hr/>	<hr/>
703)	Determine if net income from property rented for use in a trade or business activity in which the taxpayer materially participated (including partnership, S corporation, and C corporation) for the taxable year is treated as nonpassive income. Note exception for leases prior to February 19, 1988.	<hr/>	<hr/>	<hr/>
704)	Consider whether net income from the rental of substantially non-depreciable property (less than 30% of basis is subject to depreciation) must be recharacterized as not from a passive activity.	<hr/>	<hr/>	<hr/>
705)	If the activity is a significant participation activity with net income, but not a material participation activity, determine whether a ratable portion of the activity's net income must be recharacterized as not from a passive activity.	<hr/>	<hr/>	<hr/>
706)	If the activity involves the lending of money, consider the "equity-financed lending activity" rule (Reg. § 1.469-2T(f)(4)).	<hr/>	<hr/>	<hr/>
707)	Determine if net royalty income from intangible property held by a passthrough entity should be treated as nonpassive royalty income (Reg. § 1.469-2T(f)(7)).	<hr/>	<hr/>	<hr/>
708)	Determine if the "developer rule" requires the gain on the sale of rental property to be recharacterized as nonpassive income.	<hr/>	<hr/>	<hr/>

1998

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PASSIVE ACTIVITY CHECKLIST

1998

**DONE N/A COMMENTS OR
EXPLANATION**

COMMENTS OR EXPLANATIONS

MINI-CHECKLIST
C CORPORATION INCOME TAX RETURN
1998 - FORM 1120

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION			DEDUCTIONS		
1. Review prior year returns, workpapers, correspondence and audit results.	<input type="checkbox"/>	<input type="checkbox"/>	1. Consider uniform capitalization rules.	<input type="checkbox"/>	<input type="checkbox"/>
2. Document any changes in corporation's name, address, FYE, business code.	<input type="checkbox"/>	<input type="checkbox"/>	2. Consider charitable deduction rules and limitations.	<input type="checkbox"/>	<input type="checkbox"/>
3. Consider signed engagement letter.	<input type="checkbox"/>	<input type="checkbox"/>	3. Determine deductibility of vacation pay accrual.	<input type="checkbox"/>	<input type="checkbox"/>
4. Review computer-generated pro forma/organizer for accuracy.	<input type="checkbox"/>	<input type="checkbox"/>	4. Determine applicability of 2½ month deferred comp rule for nonshareholder employees and independent contractors.	<input type="checkbox"/>	<input type="checkbox"/>
5. Update carryforward schedules, including effect of prior tax audits.	<input type="checkbox"/>	<input type="checkbox"/>	5. Inquire if travel and entertainment expenses are substantiated by adequate records.	<input type="checkbox"/>	<input type="checkbox"/>
6. Review methods of accounting.	<input type="checkbox"/>	<input type="checkbox"/>	6. Limit meals and entertainment to allowable percentage.	<input type="checkbox"/>	<input type="checkbox"/>
7. Reconcile income and expenses per return with books.	<input type="checkbox"/>	<input type="checkbox"/>	7. Consider limitations on deductibility of:		
8. Consider below-market-rate loan rules.	<input type="checkbox"/>	<input type="checkbox"/>	Club dues	<input type="checkbox"/>	<input type="checkbox"/>
9. Review financial statements and footnotes for relevant information.	<input type="checkbox"/>	<input type="checkbox"/>	Lobbying expenses/association dues	<input type="checkbox"/>	<input type="checkbox"/>
10. Review Board minutes.	<input type="checkbox"/>	<input type="checkbox"/>	Bad debts	<input type="checkbox"/>	<input type="checkbox"/>
11. Consider filing power of attorney.	<input type="checkbox"/>	<input type="checkbox"/>	Casualty losses	<input type="checkbox"/>	<input type="checkbox"/>
			Stock option compensation	<input type="checkbox"/>	<input type="checkbox"/>
INCOME			8. Review amount and timeliness of retirement plan contributions.	<input type="checkbox"/>	<input type="checkbox"/>
1. Determine that dispositions of property are reported properly.	<input type="checkbox"/>	<input type="checkbox"/>	9. Consider limitation on tax attribute utilization if there has been a more than 50% ownership change.	<input type="checkbox"/>	<input type="checkbox"/>
2. Compute proper dividend received deduction.	<input type="checkbox"/>	<input type="checkbox"/>	DEPRECIATION/AMORTIZATION		
3. If closely held or PSC, consider any passive loss limitations.	<input type="checkbox"/>	<input type="checkbox"/>	1. Consider the following:		
4. Consider the following:			§ 179 election	<input type="checkbox"/>	<input type="checkbox"/>
Discharge of indebtedness	<input type="checkbox"/>	<input type="checkbox"/>	Methods and lives	<input type="checkbox"/>	<input type="checkbox"/>
Worthless securities	<input type="checkbox"/>	<input type="checkbox"/>	Listed property	<input type="checkbox"/>	<input type="checkbox"/>
Deferred income and expenses (SBJPA 1996)	<input type="checkbox"/>	<input type="checkbox"/>	Capitalization of leased property	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary income on market discount bonds and deferral of related interest expense	<input type="checkbox"/>	<input type="checkbox"/>	Amortization of goodwill and other intangibles.	<input type="checkbox"/>	<input type="checkbox"/>
Installment sales and related interest charge on deferred tax	<input type="checkbox"/>	<input type="checkbox"/>	2. Compute AMT and ACE depreciation.	<input type="checkbox"/>	<input type="checkbox"/>
Sales or exchanges between the corporation and shareholder or other related parties	<input type="checkbox"/>	<input type="checkbox"/>	TAX COMPUTATION AND CREDITS		
At risk rules	<input type="checkbox"/>	<input type="checkbox"/>	1. Compute alternative minimum tax (including ACE adjustment). Sales over \$5 million. (TRA 1997)	<input type="checkbox"/>	<input type="checkbox"/>
Like-kind exchanges	<input type="checkbox"/>	<input type="checkbox"/>	2. Consider tax credits. (SBJPA 1996 and TRA 1997)	<input type="checkbox"/>	<input type="checkbox"/>
			3. Determine if PHC tax is applicable.	<input type="checkbox"/>	<input type="checkbox"/>
			4. Consider accumulated earnings tax exposure.	<input type="checkbox"/>	<input type="checkbox"/>

MINI-CHECKLIST
C CORPORATION INCOME TAX RETURN
1998 - FORM 1120

- | | <u>Done</u> | <u>N/A</u> |
|---|--------------------------|--------------------------|
| 5. Determine if 35% PSC tax applies. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Confirm prior year overpayments, estimates and extension payments. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Compute underpayment penalties. (TRA 1997) | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Prepare estimates. (EFTPS) | <input type="checkbox"/> | <input type="checkbox"/> |

OTHER REQUIREMENTS

- | | | |
|---|--------------------------|--------------------------|
| 1. Determine if NOL, capital loss or credit carryback claim is required. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Consider election to relinquish NOL carryback. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Consider elections and statements such as: | | |
| Amortize organization expenses | <input type="checkbox"/> | <input type="checkbox"/> |
| Cash vs. accrual | <input type="checkbox"/> | <input type="checkbox"/> |
| Amortize business startup costs | <input type="checkbox"/> | <input type="checkbox"/> |
| Method for valuation of inventory | <input type="checkbox"/> | <input type="checkbox"/> |
| Research and experimental costs | <input type="checkbox"/> | <input type="checkbox"/> |
| Exception from economic performance for recurring items (first year only) | <input type="checkbox"/> | <input type="checkbox"/> |
| Ratable accrual of real property taxes (first year only) | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Inquire whether all information reporting returns have been filed. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Consider accuracy-related penalty (§ 6662). | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Prepare state and local tax returns. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Attach extension requests. | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Inquire if foreign financial accounts exist. | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Note tax planning/additional service suggestions. | <input type="checkbox"/> | <input type="checkbox"/> |

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review and update the corporation's name, address, fiscal year, incorporation date, business code, identification number, and IRS and other tax processing centers.	_____	_____	_____
102) Consider signed engagement letter.	_____	_____	_____
103) Review permanent file, prior year returns, memos, workpapers and correspondence files.	_____	_____	_____
104) Review computer-generated pro forma/organizer for accuracy.	_____	_____	_____
105) Check for carryover items and update carryforward schedule, including effects of prior tax audits.	_____	_____	_____
106) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
107) Obtain information concerning IRS and state tax audits and/or correspondence.	_____	_____	_____
108) Review for adequate stated interest on all new or modified debt instruments.	_____	_____	_____
109) Review financial statements and footnotes for relevant information.	_____	_____	_____
110) Review Board minutes.	_____	_____	_____
111) Consider filing Power of Attorney.	_____	_____	_____
200) INCOME			
201) Determine that installment sales are properly reported, including related interest charge on deferred tax.	_____	_____	_____
202) Review dispositions of property for holding period and federal, state, AMT and ACE tax bases. Consider non-recognition, gains, losses and recaptures. (SBJPA 1996 and TRA 1997).	_____	_____	_____
203) Report gains on constructive sales of appreciated financial positions. (TRA 1997)	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
204) Consider rules for like-kind and related party exchanges (Form 8824). Note restrictions for US exchange for foreign property. (TRA 1997)	_____	_____	_____
205) Determine that deferred income and expenses for book purposes are properly reported for tax purposes.	_____	_____	_____
206) Determine taxability of dividends and complete schedule C. Consider 20% ownership rule, including possible reduction in the dividends received deduction under § 246A.	_____	_____	_____
207) Exclude tax exempt income from federal gross income and state and local income as applicable, and determine whether there is interest expense disallowance related to such income.	_____	_____	_____
208) Consider the passive loss limitations for closely held or PSCs. (See Passive Activity Checklist.)	_____	_____	_____
209) Determine if there is discharge of indebtedness income. Consider exclusion and elections under § 108 and Form 982.	_____	_____	_____
210) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
211) Consider mark to market rules for "dealers in securities" (§ 475).	_____	_____	_____
212) Consider appropriate income inclusion amount for leased property. (See Vehicle Related Guides.)	_____	_____	_____
300) DEDUCTIONS			
301) Consider the uniform capitalization rules.	_____	_____	_____
302) Consider charitable contribution rules, limitations and contemporaneous receipt requirements.	_____	_____	_____
303) Identify any nondeductible vacation pay accrual.	_____	_____	_____
304) Inquire whether the corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method.	_____	_____	_____
305) Limit deduction for meals and entertainment to allowable percentage. Consider exceptions.	_____	_____	_____
306) Officers and stockholders:			

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.1) Determine the ownership of officer's life insurance policies and the proper treatment of related expenses.	_____	_____	_____
.2) Identify expense including interest if applicable, for officers life insurance which are non deductible.	_____	_____	_____
.3) Determine limitation on any losses or accruals of expenses during the year between related corporation/shareholder under § 267(a)(1).	_____	_____	_____
.4) If there were any accruals of interest, compensation or other expenses payable to a shareholder or related parties, determine that for tax purposes the deduction is deferred until the year in which it is includable in income of the shareholder.	_____	_____	_____
.5) If the corporation is a PSC with a fiscal year-end and § 280H applies, determine the appropriate distribution and deduction amounts.	_____	_____	_____
.6) Consider whether there is a potential unreasonable compensation issue.	_____	_____	_____
307) Determine if compensation deductions are allowable with respect to qualified and nonqualified stock options.	_____	_____	_____
308) Consider limitations on deductibility of:			
.1) Bad debts	_____	_____	_____
.2) Casualty losses	_____	_____	_____
.3) Club dues	_____	_____	_____
.4) Lobbying expenses/association dues	_____	_____	_____
309) Determine applicability of the 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
310) Determine that retirement plan contributions are within allowable limits and are made timely.	_____	_____	_____
311) Consider economic performance requirement and recurring item exceptions.	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) Consider all depreciation requirements and options including:			
.1) § 179 election. (Note new allowable amounts SBJPA 96)	_____	_____	_____
.2) Methods and lives.	_____	_____	_____
.3) Requirements relating to listed property.	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) Whether leased property should be capitalized.	_____	_____	_____
.5) Consider 36-month depreciation rules for software.	_____	_____	_____
402) Consider AMT and ACE depreciation.	_____	_____	_____
403) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
500) TAX COMPUTATIONS AND CREDITS			
501) If this is a consolidated tax return:			
.1) Attach Form 851.	_____	_____	_____
.2) Attach Form 1122 (only for consolidated group's first year).	_____	_____	_____
.3) Review consolidated journal entries and determine that intercompany eliminations and restorations are calculated correctly.	_____	_____	_____
.4) Attach election to allocate tax liability of group.	_____	_____	_____
502) If member of controlled group, attach apportionment schedule.	_____	_____	_____
503) Compute tax including alternative minimum tax and ACE adjustment. (Over \$5 million in sales - TRA 1997)	_____	_____	_____
504) Consider application of environmental tax.	_____	_____	_____
505) Consider tax credits. (SBJPA 1996 and TRA 1997)	_____	_____	_____
506) Consider limitations on use of NOLs and credits.	_____	_____	_____
507) If corporation is a personal service corporation, calculate tax without benefit of graduated rates.	_____	_____	_____
508) Determine personal holding company status.	_____	_____	_____
509) Determine if accumulated earnings tax exposure is present. Note exceptions.	_____	_____	_____
510) Claim current year estimated tax payments, prior year overpayments applied and extension payments.	_____	_____	_____
511) Consider filing for a quick refund (Form 4466).	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
512) Prepare Form 2220 for underestimated tax penalty or exception if applicable. Note exception under TRA 1997.	_____	_____	_____
513) Determine need for estimated tax payments. (EFTPS)	_____	_____	_____
600) OTHER REQUIREMENTS			
601) If the corporation is a party to an "applicable asset acquisition," determine that the reporting requirements have been met (Form 8594).	_____	_____	_____
602) Attach schedule for carryforward NOL.	_____	_____	_____
603) If there is a current period NOL, consider the election to forego the carryback.	_____	_____	_____
604) Consider preparing Form 1139 for carrybacks.	_____	_____	_____
605) If there is an NOL generated or utilized in the current year, disclosure is required of any change in ownership.	_____	_____	_____
606) Consider elections such as:			
.1) Amortization of organization expense.	_____	_____	_____
.2) Amortization of business start-up costs.	_____	_____	_____
.3) Ratable accrual of real property taxes (first year only).	_____	_____	_____
.4) Cash vs. accrual.	_____	_____	_____
.5) Method for valuation of inventory.	_____	_____	_____
.6) Research and experimental costs.	_____	_____	_____
.7) Exception from economic performance for recurring items (first year only).	_____	_____	_____
607) Consider applicable reporting requirements for liquidations, reorganizations, and tax-free incorporations.	_____	_____	_____
608) Reconcile net income per books to taxable income per return.	_____	_____	_____
609) Cross reference the following items:			
.1) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____
.2) Schedule M-2 beginning retained earnings to prior year's ending balance.	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Carryforward items to carryover schedule/prior year returns.	_____	_____	_____
610) Consider accuracy-related penalty and filing of a disclosure statement. (§ 6662)	_____	_____	_____
611) Consider state tax return issues (see Nexus Guide) such as:			
.1) Tax credits.	_____	_____	_____
.2) Doing business in new states.	_____	_____	_____
.3) Unitary or consolidated filing requirements.	_____	_____	_____
.4) Allocation of investment income.	_____	_____	_____
.5) Credits for income taxes paid to other states.	_____	_____	_____
612) Attach extension requests.	_____	_____	_____
613) Inquire if employee benefit plans have been reviewed to determine if they are in compliance due to changing corporate circumstances and law changes.	_____	_____	_____
614) Compare taxable income to projections for reasonableness.	_____	_____	_____
615) Determine that related party transactions are properly reported on all available returns.	_____	_____	_____
616) Inquire if information returns (1099 and 1098 series) have been filed.	_____	_____	_____
617) Inquire if employment taxes were timely deposited. (EFTPS)	_____	_____	_____
618) Consider whether an "S" election should be made.	_____	_____	_____
619) Note tax planning suggestions.	_____	_____	_____

COMMENTS OR EXPLANATIONS

C CORPORATION INCOME TAX RETURN CHECKLIST **1998 - FORM 1120**

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review the corporation's name, address, fiscal year, incorporation date, business code, identification number, and IRS and other tax processing centers. Note changes.	_____	_____	_____
102) Consider signed engagement letter.	_____	_____	_____
103) Review permanent file, prior year returns, memos, workpapers and correspondence files.	_____	_____	_____
104) Review computer-generated pro forma/organizer for accuracy.	_____	_____	_____
105) If the corporation has been examined by the IRS, state or local taxing authorities:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine that the agent's adjustments have been entered on the corporation's records and appropriate carryforward workpapers.	_____	_____	_____
.3) If the agent's adjustments affect income tax returns of years other than those audited, or the corresponding federal or state returns for the same year, consider filing amended returns.	_____	_____	_____
106) Obtain correspondence with IRS and state taxing authorities. Consider impact.	_____	_____	_____
107) Review and update schedules for federal and state carryover items (regular and AMT) such as:			
.1) Prior year overpayment(s) credited to current year estimate.	_____	_____	_____
.2) Prior year deferred deductions.	_____	_____	_____
.3) Net operating loss.	_____	_____	_____
(a) Consider limitations due to change in ownership rules (§ 382).	_____	_____	_____
(b) Consider limitations due to acquisition under § 384.	_____	_____	_____
(c) Consider SRLY limitation for consolidated returns.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120

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|--|-------|-------|-------|
| .4) Capital loss. | _____ | _____ | _____ |
| .5) Investment credit. | _____ | _____ | _____ |
| .6) AMT credit. | _____ | _____ | _____ |
| .7) Other credits. | _____ | _____ | _____ |
| .8) Charitable contributions. | _____ | _____ | _____ |
| .9) Installment sales. Consider applicable tax rates for components of gain. | _____ | _____ | _____ |
| .10) Passive losses/credits. | _____ | _____ | _____ |
| .11) Suspended losses/credits due to at-risk limitations. | _____ | _____ | _____ |
| .12) Partnership basis. | _____ | _____ | _____ |
| .13) Change of accounting method adjustments (§ 481). | _____ | _____ | _____ |
| .14) § 179 amounts. | _____ | _____ | _____ |
| .15) For consolidated returns: | | | |
| (a) Stock bases. | _____ | _____ | _____ |
| (b) Excess loss accounts. | _____ | _____ | _____ |
| (c) Deferred intercompany transactions. | _____ | _____ | _____ |
| 108) Inquire whether the taxpayer has made or received any below-market-rate loans. Determine imputed interest consequences and existence of properly executed note. | _____ | _____ | _____ |
| 109) Review for adequate stated interest on debt instruments: | | | |
| .1) Determine whether original issue discount or unstated interest rules require restatement of note interest and principal. | _____ | _____ | _____ |
| .2) Consider election for purchased discount under § 1278. | _____ | _____ | _____ |
| 110) Review for proper reporting of interest recognition in accordance with Reg. §§ 1.483-4 and 1.1274-5 for debt instruments providing contingent payments. | _____ | _____ | _____ |
| 111) Consider whether or not corporate capitalization is realistic in light of the debt/equity rules. | _____ | _____ | _____ |
| 112) Document any changes in stock ownership during the tax year. | _____ | _____ | _____ |

C CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120

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| 113) Determine officers' compensation and complete Schedule E, if required. | _____ | _____ | _____ |
| 114) Determine if the corporation is a personal service corporation (PSC) and is required to file on a calendar-year basis. If the PSC has made a § 444 election to have an allowable fiscal tax year, determine that Form 8716 has been timely filed. Note that a copy of Form 8716 must be attached to Form 1120 for the first tax year for which the election is made. | _____ | _____ | _____ |
| 115) If the corporation is on the cash basis, determine if the accrual basis is required (generally, gross receipts in excess of \$5 million). | _____ | _____ | _____ |
| 116) Determine if accounting methods used are comparable to the preceding year unless changes are approved or required. | _____ | _____ | _____ |
| 117) Consider economic performance requirement and recurring item exceptions. | _____ | _____ | _____ |
| 118) Review financial statements and footnotes for relevant information. | _____ | _____ | _____ |
| 119) Review Board minutes. | _____ | _____ | _____ |
| 120) Consider filing Power of Attorney. | _____ | _____ | _____ |

200) INCOME

- | | | | |
|--|-------|-------|-------|
| 201) Determine that installment sales are reported properly. | | | |
| .1) Consider related party rules. | _____ | _____ | _____ |
| .2) Determine that the full amount of depreciation recapture is reported in the year of sale whether or not payment was received in that year. | _____ | _____ | _____ |
| .3) Review for adequate stated interest on debt instruments received in connection with the sale. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal. | _____ | _____ | _____ |
| .4) If the corporation is a "dealer" with respect to the related property: | | | |
| (a) Determine that the installment method is <u>not</u> used to report post-1987 sales of dealer property (exceptions—farm property, certain timeshare rights and residential lots if proper election is made). | _____ | _____ | _____ |
| (b) Determine that the interest owed as a result of an election in (a) above is properly reported. | _____ | _____ | _____ |

C CORPORATION INCOME TAX RETURN CHECKLIST
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|--|-------|-------|-------|
| <p>(c) Consider that manufacturers of tangible personal property will not be eligible to use installment method for sales to dealers after August 5, 1998. (TRA 1997)</p> | _____ | _____ | _____ |
| <p>.5) Consider special rules for installment reporting by certain non-dealers of real (post-1986 sales) or personal property (post-1988 sales) where the sales price exceeds \$150,000 (§ 453A) (does not apply to certain farm property).</p> | _____ | _____ | _____ |
| <p>(a) Compute the interest charge imposed on outstanding tax deferred installment obligations if the face amount of these obligations that arose during, and are still outstanding at the close of, the tax year exceeds \$5 million.</p> | _____ | _____ | _____ |
| <p>(b) Determine that the proper amount is treated as a collection on any pledged installment obligation.</p> | _____ | _____ | _____ |
| <p>.6) Consider election out of installment method.</p> | _____ | _____ | _____ |
| <p>.7) Determine if an event has occurred requiring accelerated recognition of the remaining unreported gain (e.g., resale rule for related parties, cancellation of the installment obligation, disposition of the installment obligation).</p> | _____ | _____ | _____ |
| <p>202) For disposed property:</p> | | | |
| <p>.1) Reconcile to depreciation schedule.</p> | _____ | _____ | _____ |
| <p>.2) Determine holding period and federal, state, AMT and ACE tax bases.</p> | _____ | _____ | _____ |
| <p>.3) Determine that gains and losses are properly characterized:</p> | _____ | _____ | _____ |
| <p>(a) Ordinary, § 1231, capital</p> | _____ | _____ | _____ |
| <p>(b) Long term, short term - note holding changes (Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 1998))</p> | _____ | _____ | _____ |
| <p>.4) If there are § 1231 gains, determine the amount subject to ordinary income treatment as a result of five year recapture rule for prior net § 1231 losses.</p> | _____ | _____ | _____ |
| <p>.5) Consider the provisions relating to:</p> | | | |
| <p>(a) Non-recognition of gain or loss (Form 8824). See new rules for involuntary conversion of post-1994 Presidentially declared disasters (SBJPA 1996). Note restrictions on exchanges of US property for foreign property. (TRA 1997)</p> | _____ | _____ | _____ |

C CORPORATION INCOME TAX RETURN CHECKLIST
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|--|-------|-------|-------|
| (b) Rules for like-kind and related party exchanges (Form 8824). | _____ | _____ | _____ |
| (c) Recapture of depreciation (including § 291 recapture) and/or tax credits, or reduction of credit carryforwards. Note § 1245 applications (TRA 1997). | _____ | _____ | _____ |
| (d) Forced sale of livestock on account of weather related conditions. | _____ | _____ | _____ |
| 203) Deferred income and expenses: | | | |
| .1) Include in gross income, as appropriate, income deferred for books in the current year. | _____ | _____ | _____ |
| .2) Exclude from gross income, as appropriate, income for books in the current year that was taken into income for tax in a prior year. | _____ | _____ | _____ |
| .3) Consider whether there are any advance payments for goods that can be determined under Reg. § 1.481-5. Note the information schedule requirements. | _____ | _____ | _____ |
| .4) Consider any advance payments for services under Rev. Proc. 71-21. | _____ | _____ | _____ |
| .5) Determine deductibility of prepaid expenses. | _____ | _____ | _____ |
| 204) Review application of the wash sale rules. | | | |
| 205) Report gains on constructive sales of an appreciated financial positions occurring after June 8, 1997. (TRA 1997) | | | |
| 206) Review application of straddle rules and available elections under § 1092. | | | |
| 207) Determine that sales of securities settled after year end, with a trade date within current year, are reported this year. Note special rules for short sales in § 1233. | | | |
| 208) Exclude interest on state or local obligations from federal taxable income; however, enter amounts on Form 1120, Page 3, Schedule K, Question 12. | | | |
| 209) Exclude interest on exempt state, local and federal obligations from state and local taxable income. | | | |
| 210) Determine taxability of dividends and complete Schedule C. | | | |
| .1) Consider 20% ownership rule. | _____ | _____ | _____ |

C CORPORATION INCOME TAX RETURN CHECKLIST
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|--|-------|-------|-------|
| .2) Determine that stock was held more than 45 days. | _____ | _____ | _____ |
| .3) Consider reduction in dividends received deduction where underlying stock is debt financed (§ 246A). | _____ | _____ | _____ |
| .4) Determine if extraordinary dividends exceed tax basis. (TRA 1997) | _____ | _____ | _____ |
| 211) For passive activities see Passive Activity Checklist and consider: | _____ | _____ | _____ |
| .1) Passive activity elections. | _____ | _____ | _____ |
| .2) If any pass-through entity in which the corporation has an interest has separately reported activities. | _____ | _____ | _____ |
| 212) Determine if either of the following apply. If so, the corporation's losses from an activity may be limited (See Passive Activity Checklist and Form 8810): | | | |
| .1) During the last half of the year, there are five or fewer individuals who own directly or indirectly more than 50% of the stock and shareholders owning (in the aggregate) more than 50% are NOT materially participating in the activity. | _____ | _____ | _____ |
| .2) The corporation is a personal service corporation—even if shareholders are materially participating in the activity. | _____ | _____ | _____ |
| 213) Determine if an M-1 adjustment is required for any change in the cash surrender value of key person life insurance. | _____ | _____ | _____ |
| 214) Determine whether income from services does not have to be accrued if, based on experience, such amounts will not be collected (§ 448(d)(5)). | _____ | _____ | _____ |
| 215) For leased property, calculate the appropriate income inclusion amount to be reported by referring to the IRS tables (See Vehicle Related Guides). | _____ | _____ | _____ |
| 216) Determine if there is discharge of indebtedness income. | _____ | _____ | _____ |
| .1) Consider exclusion and elections under § 108. (See new amendments to proposed amendment to Reg. 1.1017-1) | _____ | _____ | _____ |
| .2) Consider Form 982. | _____ | _____ | _____ |
| 217) Determine if there have been any distributions of appreciated property to shareholders requiring recognition of gain by the corporation (§ 311). | _____ | _____ | _____ |
| 218) Determine applicability of Reg. § 1.1502-20 disallowing loss on disposition of stock of consolidated subsidiary. | _____ | _____ | _____ |

C CORPORATION INCOME TAX RETURN CHECKLIST
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|--|-------|-------|-------|
| 219) Determine if securities held by the corporation became worthless during the year. Note that substantial worthlessness of short sale property is a gain recognition event. (TRA 1997) | _____ | _____ | _____ |
| 220) If worthless securities were stock in an affiliated corporation, the deduction may be ordinary under § 165(g)(3) subject to: | | | |
| .1) loss disallowance rules of Reg. § 1.1502-20 (See 218 above) and | _____ | _____ | _____ |
| .2) for consolidated return years beginning on or after January 1, 1995, the worthless stock deduction is subject to deferral under Reg. § 1.1502-80(c). | _____ | _____ | _____ |
| 221) Inquire if the taxpayer engaged in bartering transactions. | _____ | _____ | _____ |
| 222) Consider ordinary income on market discount bonds and deferral of related interest expense. | _____ | _____ | _____ |
| 223) Determine whether interest income on ESOP loans is excludable (SBJPA 1996). | _____ | _____ | _____ |
| 224) Consider the mark to market rules for "dealers in securities." Warning: the definition of "dealers in securities" contained in § 475 is not limited to Wall Street brokerage firms. The expansive definition includes many taxpayers involved in lending transactions and various seller financed activities. | _____ | _____ | _____ |
| .1) Determine that § 475 assets are adjusted to fair market value at the end of the year. | _____ | _____ | _____ |
| .2) Determine the § 481 adjustment. | _____ | _____ | _____ |
| .3) Amortize the § 481 adjustment over 5 years (15 years for certain floor specialists and market makers) beginning with the year of change. | _____ | _____ | _____ |
| .4) Determine if exempt securities were timely identified in taxpayer books and records. | _____ | _____ | _____ |
| .5) Consider loss limitations for: | | | |
| (a) securities not properly identified | _____ | _____ | _____ |
| (b) nonfinancial customer paper ((RRA 1998) 1998) | _____ | _____ | _____ |
| 225) Consider the exclusion from income of cash or rent space reduction received from lessor under a short term lease of retail space utilized to construct leasehold improvements which will benefit to the lessor at termination of lease. (TRA 1997) | _____ | _____ | _____ |

C CORPORATION INCOME TAX RETURN CHECKLIST
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300) DEDUCTIONS

301) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis (vested at year end and taken within 2½ months after year end).

302) Consider applicability of uniform capitalization rules to resellers with annual gross receipts in excess of \$10 million and all producers of property. (Note final regulations related to general rules (§ 1.263A-1), producers (§ 1.263A-2) and resellers (§ 1.263A-3)).

.1) Determine that all costs are included.

.2) Consider interest capitalization rules for debt incurred to produce property.

.3) If the beginning inventory is revalued:

(a) Ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (§ 481).

(b) Ascertain § 481 forward spread period (not to exceed four years).

(c) Determine that Form 3115 is attached to the tax return for the year of change.

(d) Consider electing "simplified" methods.

.4) For farmers and ranchers consider:

(a) One-time election out of uniform capitalization rules if election was not required in a prior year.

(b) The exemption for expenses incurred in the production of animals.

.5) Review the definition of "produce".

303) Long-Term Contracts

.1) Determine if the taxpayer is subject to the long-term contract reporting rules requiring that the percentage of completion method, instead of the completed contract method, be used to determine taxable income. Note exceptions for certain qualifying construction contracts and most contracts for the manufacture of property.

C CORPORATION INCOME TAX RETURN CHECKLIST
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- .2) In determining whether contracts of the taxpayer are subject to the percentage of completion method of reporting, consider:
- (a) Related party rules. _____
- (b) Contract aggregation rules. _____
- .3) Determine that the percentage of completion is calculated based on costs incurred, not work performed. _____
- .4) Determine that all required costs have been allocated to the contracts. Note the expanded requirement to capitalize costs similar to the uniform capitalization rules. _____
- .5) Consider electing the simplified method of allocating costs, whereby fewer costs are taken into account, to determine the degree of contract completion. _____
- .6) Consider electing the modified percentage-of-completion method, where-by the recognition of income and accounting for costs is deferred until the first tax year in which at least 10% of the estimated total contract costs have been incurred as of the end of that year. Note that this election is not available if the simplified method above has been elected. _____
- .7) Upon completion of a contract, determine that the "look-back rule" has been applied to compare actual contract price and costs to previously used estimates and pay/claim interest on the related changes in prior years taxes on Form 8697. Note that certain small contracts are not subject to the "look-back rule." (See TRA 1997 for changes in interest calculations and election to not apply look-back method.) _____
- 304) For charitable contributions:
- .1) Inquire if all contributions are to qualified charitable organizations. _____
- .2) Determine that certain contributions to organizations conducting lobbying activities related to the taxpayer's trade or business are not deducted. _____
- .3) Consider the contribution deduction limitation and record any carryover amounts. _____
- .4) If a carryforward deduction is claimed, attach a supporting schedule to the return. _____
- .5) Inquire if adequate contemporaneous documentation was obtained for contributions made of \$250 or more. _____

C CORPORATION INCOME TAX RETURN CHECKLIST
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|---|-------|-------|-------|
| .6) Consider the limitation related to contributions of appreciated ordinary income property. | _____ | _____ | _____ |
| .7) Consider increased deduction for contributions of inventory. | _____ | _____ | _____ |
| .8) Determine that costs of contributed property held for sale in the course of a trade or business that are incurred in the year of contribution are treated as part of cost of goods sold for such year, not a charitable contribution subject to the related rules and limitations. | _____ | _____ | _____ |
| .9) Consider the deduction for more than cost of appreciated capital gains property. | _____ | _____ | _____ |
| .10) Ascertain that minutes document authorization before year end for accrued charitable contributions, and that contributions are paid by the 15th day of the 3rd month after the end of the tax year. An election statement and a certified copy of the minutes must be attached to the return. | _____ | _____ | _____ |
| .11) Determine if Form 8283 is required for non-cash charitable donations. | _____ | _____ | _____ |
| 305) Inquire whether the corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method and limitation on deductibility of certain non-employee travel expenses. | _____ | _____ | _____ |
| 306) Determine if professional fees and/or employee salaries require capitalization. | _____ | _____ | _____ |
| 307) Limit deductions for meals and entertainment to allowable percentage. Consider exceptions. | _____ | _____ | _____ |
| 308) Determine the deductibility of club dues. | _____ | _____ | _____ |
| 309) Determine that certain lobbying expenses are not deducted (note exceptions). | _____ | _____ | _____ |
| 310) Inquire if dues include non-deductible lobbying expenses. | _____ | _____ | _____ |
| 311) Officers and shareholders: | | | |
| .1) Determine the ownership of officers' life insurance policies and the proper treatment of related expenses. | _____ | _____ | _____ |
| .2) Determine deductibility of disability insurance premiums. | _____ | _____ | _____ |

C CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120

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|---|-------|-------|-------|
| .3) Determine limitation on losses during the year between related corporations/shareholders or other related parties under § 267(a)(1). | _____ | _____ | _____ |
| .4) If there were any accruals of interest, compensation or other expenses payable to a cash basis payee who owns directly or indirectly more than 50% of the corporation's stock, determine that for tax purposes the deduction is deferred until the year in which it is includible in the income of the shareholder. | _____ | _____ | _____ |
| .5) If the corporation is a PSC with a fiscal year end and § 280H (regarding allowable applicable amounts) applies, determine the amount including carryover to be deducted in the current year. Complete Schedule H (Form 1120) to figure the required minimum distribution and the maximum deductible amount—attach to the return if the minimum distribution requirements are not met. | _____ | _____ | _____ |
| .6) Consider whether there is a potential unreasonable compensation issue. | _____ | _____ | _____ |
| .7) Review documentation of shareholder loans. | _____ | _____ | _____ |
| 312) Consider limitation of deduction for executive compensation in excess of \$1 million unless qualifying performance-based program was in effect. | _____ | _____ | _____ |
| 313) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors. | _____ | _____ | _____ |
| 314) Determine if there are non-deductible payments made under golden parachute agreements. | _____ | _____ | _____ |
| 315) Determine if compensation deductions are allowable with respect to: | | | |
| (1) current or past transfers of property that are no longer subject to a substantial risk of forfeiture (§ 83) | _____ | _____ | _____ |
| (2) disqualifying dispositions of stock under Incentive Stock Options (§ 422) | _____ | _____ | _____ |
| (3) employee Stock Purchase Plans (§ 423) | _____ | _____ | _____ |
| (4) exercise of nonqualified options for stock without a readily obtainable fair market value | _____ | _____ | _____ |
| (5) consider requirements for inclusion in W-2 and appropriate withholding. | _____ | _____ | _____ |
| 316) Determine that the specific write-off method is used for bad debts. | _____ | _____ | _____ |
| 317) Review partially worthless debt for write-off under Reg. § 1.166-3. | _____ | _____ | _____ |

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|--|-------|-------|-------|
| 318) Consider limitation of Bad Debt Reserve Method for Thrifts (SBJPA 1996). | _____ | _____ | _____ |
| 319) Review increases or decreases in reserve accounts for potential M-1 items. | _____ | _____ | _____ |
| 320) If taxpayer maintains a profit sharing or stock bonus plan and has not contributed the maximum contribution for each taxable year beginning prior to 1987, calculate the unfunded contribution carryover amount. | _____ | _____ | _____ |
| 321) Determine applicability of rules with respect to post-October 2, 1989 transfers of franchises, trademarks and trade names. | _____ | _____ | _____ |
| 322) Determine if inventory write-down for book purposes should be adjusted for tax purposes. Note TRA 1997 allows estimated inventory shrinkage. | _____ | _____ | _____ |
| 323) Determine proper tax treatment for long-term lease agreements (as lessor or lessee) where the lease provides for deferred payments or increasing payments. (See also Proposed Reg. 1.467) | _____ | _____ | _____ |
| 324) Review penalties paid or accrued for deductibility. | _____ | _____ | _____ |
| 325) Interest considerations: | | | |
| .1) Treat amortizable bond premiums (for bonds acquired after 1987) as an offset to interest income. | _____ | _____ | _____ |
| .2) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on current or former beneficial owners and key employees to the extent that the total of such loans exceeds \$50,000. Note phase-in rules under HIPAA 1996, and additional limitations for new or materially changed contracts issued after June 8, 1997. (TRA 1997) | _____ | _____ | _____ |
| .3) Determine that proper allocation of interest expense has been made if the proceeds of a loan were used for more than one purpose. | _____ | _____ | _____ |
| .4) Determine that the proper allocations have been made by type (trade or business, investment, passive activity, tax-exempt expenditures, etc.) | _____ | _____ | _____ |
| .5) Determine if there is an allowable interest deduction related to deferred compensation agreements. | _____ | _____ | _____ |
| .6) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations. | _____ | _____ | _____ |
| .7) Capitalize interest and carrying charges on straddles (§ 263(g)). | _____ | _____ | _____ |

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.8) Determine if any interest is nondeductible on disqualified debt instruments under § 163(l). (TRA 1997)

326) Consider limitations on deducting expenses related to federally tax exempt income. Note that these expenses may be deductible at the state level if the related income is state taxable.

327) Consider option to deduct current year qualifying disaster losses on preceding year tax return by filing an amended return.

328) Determine that retirement plan contributions have been calculated using the eligible compensation limit and obtain a listing of the amounts and payments. Note Repeal of Family Aggregation Rules. (SBJPA 1996)

329) Determine if deductions should be reduced by credits claimed.

330) Determine proper treatment of environmental clean-up expenses. Note new expense election. (TRA 1997)

400) DEPRECIATION/AMORTIZATION

401) For assets placed in service during the current year:

.1) Consider § 179 election to expense qualifying assets.

.2) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property placed in service after June 30, 1993.

.3) Determine the depreciable basis of each asset.

.4) Determine the property class, recovery period and depreciation method for each asset. Note new limitations on property qualifying for income forecast method and designated lives or rent to own property. (TRA 1997)

.5) Determine the applicable convention (half-year, mid-quarter or mid-month).

.6) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period.

.7) Consider 36-month depreciation rules for software.

.8) Consider reduced depreciable lives for real estate improvements and special use structure.

.9) Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property.

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|--|-------|-------|-------|
| .10) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A. | _____ | _____ | _____ |
| .11) If property is leased to a tax exempt entity, consider the possible need to use the ADS. | _____ | _____ | _____ |
| .12) Consider depreciation limitations for IDB financed property, and certified historic structures for which a tax credit was taken. | _____ | _____ | _____ |
| .13) If a short year, determine that Rev. Proc. 89-15 is followed. | _____ | _____ | _____ |
| .14) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2(d)(3). | _____ | _____ | _____ |
| .15) Determine if interest is payable under look-back method where income forecast method is used (SBJPA 1996). Note interest calculations change (TRA 1997) | _____ | _____ | _____ |
| .16) Consider accelerated depreciation for qualifying property located on Indian reservations. | _____ | _____ | _____ |
| 402) Determine that amortizable items, including goodwill, are written off over the correct periods. | _____ | _____ | _____ |
| 403) Consider the provisions of Rev. Proc. 96-31 to rectify prior year claims of less than allowable depreciation or amortization. | _____ | _____ | _____ |
| 404) Determine if leased property should be capitalized. | _____ | _____ | _____ |
| 405) Consider anti-churning rules. | _____ | _____ | _____ |
| 406) For listed property (e.g., cellular phones, autos, computers, airplanes, boats): | | | |
| .1) For autos, consider the maximum allowable under the luxury auto rules. Note TRA 1997 exceptions for clean-burning and electric vehicles. | _____ | _____ | _____ |
| .2) For autos, determine limitation if the business usage is 50% or less. | _____ | _____ | _____ |
| .3) Determine limitations for all other mixed-use property, if the business usage is 50% or less. | _____ | _____ | _____ |
| .4) Inquire if the taxpayer has kept the required records indicating the business and personal use of property. | _____ | _____ | _____ |
| .5) Determine recapture if the business usage is 50% or less. | _____ | _____ | _____ |
| 407) Form 4562 (if required): | | | |

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|---|-------|-------|-------|
| .1) Reconcile depreciation expense to supporting schedules. | _____ | _____ | _____ |
| .2) Complete questions regarding personal use of listed property. | _____ | _____ | _____ |
| .3) If the costs were incurred during the current year, determine that amortizable items are separately stated and the proper Code section cited. | _____ | _____ | _____ |
| 408) Consider state depreciation, if different. | _____ | _____ | _____ |
| 409) Consider federal and state AMT depreciation. Note depreciable lives of tangible personal property placed in service after 12/31/97 are the same for regular and AMT purposes. (TRA 1997) | _____ | _____ | _____ |
| 410) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture. | _____ | _____ | _____ |
| 500) TAX COMPUTATIONS AND CREDITS | | | |
| 501) Compute regular tax. | _____ | _____ | _____ |
| 502) Consider alternative tax rate on net capital gains (TRA 1997). | _____ | _____ | _____ |
| 503) If this is a consolidated tax return: | | | |
| .1) Attach Form 851. | _____ | _____ | _____ |
| .2) Attach Form 1122 (only for consolidated group's first year). | _____ | _____ | _____ |
| .3) Review consolidated journal entries and determine that intercompany eliminations and restorations are calculated correctly. | _____ | _____ | _____ |
| .4) Attach election to allocate tax liability of group. | _____ | _____ | _____ |
| 504) If taxpayer is part of a controlled group, consider special allocation rules under §§ 1561 and 1563. Attach apportionment schedule. | _____ | _____ | _____ |
| 505) Alternative minimum tax (over \$5 million sales - TRA 1997): | | | |
| .1) Consider adjustments to regular taxable income or loss such as: | | | |
| (a) Depreciation on property placed in service after 1986 (or July 31, 1986, if election was made) must be computed using ADS (Rev. Proc. 87-57). | _____ | _____ | _____ |
| (b) Mining exploration and development costs must be capitalized and amortized over a ten-year period. | _____ | _____ | _____ |
| (c) Gains/losses on sales and exchanges are to be recomputed using AMT adjusted basis. | _____ | _____ | _____ |

C CORPORATION INCOME TAX RETURN CHECKLIST
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|--|--------------|--------------|--------------|
| <p>(d) Income from long-term contracts entered into after February 28, 1986 must be computed using the percentage-of-completion method of accounting. (Note exception for home construction contracts.) See exception for cash basis farmers. (TRA 1997)</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>(e) Income from post-February 28, 1986 disposition of real or personal property held for sale in the ordinary course of business shall be determined without regard to the installment method, except in cases where an election is made to pay interest on the tax deferred by the installment method. Note exception for cash basis farmers. (TRA 1997)</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>(f) All gains and losses from tax shelter farm activities, that are not passive activities, are to be recomputed by taking into account any AMT adjustments and tax preference items (PSCs only).</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>(g) All passive activity gains and losses are to be recomputed by taking into account any AMT adjustments, tax preference items, and AMT prior year unallowed losses (closely held corporations and PSCs only).</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>.2) Consider tax preference items to be added such as:</p> | | | |
| <p>(a) Tax exempt interest from private activity bonds issued after August 7, 1986.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>(b) Excess intangible drilling costs.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>(c) Accelerated depreciation on real property placed in service before 1987.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>(d) Accelerated depreciation on leased personal property placed in service prior to 1987 (PHCs only).</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>.3) Adjusted current earnings (ACE) adjustment (§ 56(g)) must be calculated taking into account adjustments such as:</p> | | | |
| <p>(a) Depreciation for property placed in service prior to 1994.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>(b) E&P inclusion items:</p> | | | |
| <p>i) Net tax exempt interest income.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>ii) Net death benefits from life insurance contracts.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>iii) Other.</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>(c) E&P disallowed items:</p> | | | |

C CORPORATION INCOME TAX RETURN CHECKLIST
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|---|-------|-------|-------|
| i) Dividends received deduction (70%). | _____ | _____ | _____ |
| ii) Other. | _____ | _____ | _____ |
| (d) Other E&P adjustments: | | | |
| i) LIFO. | _____ | _____ | _____ |
| ii) Amortization of organization expense. | _____ | _____ | _____ |
| iii) Installment sales. | _____ | _____ | _____ |
| iv) Other. | _____ | _____ | _____ |
| .4) Use AMT net operating loss (NOL) deduction in place of the regular NOL deduction. Post-1986 AMT NOL deduction is available only to the extent of 90% of pre-NOL AMTI. | | | |
| | _____ | _____ | _____ |
| .5) Consider foreign tax credit. | _____ | _____ | _____ |
| .6) Consider AMT credit carryover. (TRA 1997) | _____ | _____ | _____ |
| .7) Consider potential relief under AMT Tax Benefit Rule § 59(g). | _____ | _____ | _____ |
| 506) Consider § 1341 claim of right where an item of income was included in gross income in a previous year and a deduction for such item is allowable this year. | | | |
| | _____ | _____ | _____ |
| 507) Determine if the corporation is eligible for tax credits such as: | | | |
| .1) Foreign tax credit. (Form 1118) | _____ | _____ | _____ |
| .2) Investment tax credit (rehabilitation and transition, energy and reforestation). (Form 3468) | _____ | _____ | _____ |
| .3) Credit for increasing research activities. (See TRA 1997 for extension through June 30, 1998.) (Form 6765) | _____ | _____ | _____ |
| .4) Enhanced oil recovery credit. (Form 8830) | _____ | _____ | _____ |
| .5) Credit for producing fuels from nonconventional source. | _____ | _____ | _____ |
| .6) Gasoline and special fuels credit. (Form 4136) | _____ | _____ | _____ |
| .7) Low income housing credit. (Form 8586) | _____ | _____ | _____ |
| .8) Disabled access credit. (Form 8826) | _____ | _____ | _____ |
| .9) Qualified electric vehicle credit. (Form 8834). | _____ | _____ | _____ |

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|---|-------|-------|-------|
| .10) Renewable electricity production credit. (Form 8835). | _____ | _____ | _____ |
| .11) Credit for employer social security taxes paid on certain employee cash tips. See SBJPA 1996 for changes. (Form 8846) | _____ | _____ | _____ |
| .12) Credit related to wage and health insurance costs for qualified Indian employees (Form 8845). | _____ | _____ | _____ |
| .13) Credit for contributions to certain community development corporations (Form 8847). | _____ | _____ | _____ |
| .14) Credit for alcohol used as a fuel. (Form 4136) | _____ | _____ | _____ |
| .15) Empowerment zone employment credit (Form 8844). | _____ | _____ | _____ |
| .16) The Work Opportunity Credit for eligible employees who began work after September 30, 1996, and before July 1, 1998. (SBJPA 1996 and TRA 1997) (Form 5884) | _____ | _____ | _____ |
| .17) The credit for qualified clinical testing expenses (Orphan Drug Credit) and associated carrybacks and carryovers. (SBJPA 1996) Note permanently extended under TRA 1997. (Form 8820) | _____ | _____ | _____ |
| .18) Welfare-to-work tax credit for eligible employees who begin work after Jan 1, 1998 and before May 1, 1999. (TRA 1997) | _____ | _____ | _____ |
| 508) Determine if the corporation is a personal holding company. | | | |
| .1) Prepare Schedule PH. | _____ | _____ | _____ |
| .2) Consider consent dividends. | _____ | _____ | _____ |
| 509) Determine if the corporation is a personal service corporation subject to tax without benefit of graduated rates. | | | |
| 510) Consider whether accumulated earnings tax exposure is present. Note exceptions. | | | |
| 511) Confirm the amounts and dates of any federal, state and local estimated tax deposits for the year, prior year overpayments applied, backup withholding and extension payments. | | | |
| 512) If estimated tax deposits are less than 100% of the tax liability, including alternative minimum tax, consider filing Form 2220. Note exception under TRA 1997. | | | |
| 513) Consider estimated tax payments, alternate "large corporation" estimate payment calculation and electronic filing requirements. Note: Prior year safe harbor does not apply if prior year return was not for twelve months, shows no tax or if no prior year return was filed. | | | |

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514) Consider election to use one of the two new optional time periods to determine annualized income for purposes of paying estimated taxes (Form 8842 must be filed by the 15th day of the fourth month of the tax year for which the election is to apply).

515) Consider filing Form 4466 for a quick refund of overpaid estimated tax.

600) OTHER REQUIREMENTS

601) If the corporation is party to an "applicable asset acquisition" (transfer of assets that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met (Form 8594).

602) If the corporation has made a qualifying stock purchase attach Form 8023A. Consider the election to treat the purchase as an asset acquisition (§ 338).

603) Determine if Form 8271 is required for tax shelters.

604) Net Operating Losses (NOL):

.1) If an NOL deduction is claimed, prepare supporting schedules for regular and AMT carryovers to be attached to the return.

.2) If there is a current year NOL, consider the election to forego the carryback.

.3) Determine if part of a current NOL is attributable to a specified liability loss, such as product liability (§ 172(b)(1)(c)). Attach statement (Reg. § 1.172 - 13(c)).

.4) If there is an NOL incurred in the current year, or a carryforward deducted in the current year, disclosure is required of any change in ownership.

.5) Consider preparing Form 1139 for carrybacks. Note carryback period has been changed from three years to two years. (TRA 1997)

.6) If a net operating loss is anticipated for next year, consider filing Form 1138 to extend time for paying current year's tax.

.7) Consider state differences.

605) Consider elections and statements such as:

.1) Election to amortize organization expense.

.2) Election to amortize business start-up costs.

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|--|-------|-------|-------|
| .3) Cash vs. accrual method. | _____ | _____ | _____ |
| .4) Election to expense intangible drilling costs. | _____ | _____ | _____ |
| .5) § 351, statement of transferred assets. | _____ | _____ | _____ |
| .6) Method for valuation of inventory. | _____ | _____ | _____ |
| .7) Change in accounting method application/approval. | _____ | _____ | _____ |
| .8) Research and experimental costs. | _____ | _____ | _____ |
| .9) Exception from economic performance for recurring items. Under final regulations, the election for any item(s) incurred for the first time is made by accounting for the item(s) under the recurring method on a timely filed tax return. | _____ | _____ | _____ |
| .10) If this is the first year the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception (Rev. Proc. 92-28). | _____ | _____ | _____ |
| .11) Election to apply any overpayment to a particular quarter other than the first (Rev. Rul. 88-98). | _____ | _____ | _____ |
| .12) Section 265 (expenses and interest related to tax-exempt income) allocation statement. | _____ | _____ | _____ |
| 606) Determine if expenditures were incurred that are eligible for the Disabled Access Credit (Form 8826). If the taxpayer does not qualify for the credit or has expenditures in excess of the credit limit, consider making § 190 election to expense the costs. | _____ | _____ | _____ |
| 607) Consider applicable reporting requirements, including information reporting Forms 1099, for the following corporate liquidation and reorganization transactions: | | | |
| .1) Reorganizations (Reg. § 1.368-3). | _____ | _____ | _____ |
| .2) Liquidation (Reg. § 1.332-6). | _____ | _____ | _____ |
| .3) Corporate separations (Reg. § 1.355-5). | _____ | _____ | _____ |
| 608) Reconcile net income per books to taxable income per return, including review of prior year's schedule M-1 adjustments. | _____ | _____ | _____ |
| 609) Cross reference the following items: | | | |
| .1) Schedule L beginning balances to prior year's ending balances. | _____ | _____ | _____ |

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|--|-------|-------|-------|
| .2) Schedule M-2 beginning retained earnings to prior year's ending balance. | _____ | _____ | _____ |
| .3) Detail listings of Schedule L beginning balances to prior year's detail listings of ending balances. | _____ | _____ | _____ |
| .4) Carryforward items to carryover schedule/prior year returns. | _____ | _____ | _____ |
| 610) Cross reference line items to supporting schedules within the return. | _____ | _____ | _____ |
| 611) Consider § 6662 accuracy-related penalty. If this penalty could apply: | | | |
| .1) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275 or 8275R). | _____ | _____ | _____ |
| .2) Consider advising the taxpayer, in writing, of the penalty. | _____ | _____ | _____ |
| 612) Consider filing information returns related to ownership in foreign partnerships and corporations (Form 5471). | _____ | _____ | _____ |
| 613) Consider filing requirements of foreign owned U.S. corporations (Form 5472). | _____ | _____ | _____ |
| 614) Determine if Form TD F 90-22.1 is needed to report foreign financial accounts. | _____ | _____ | _____ |
| 615) Determine if corporation (SBJPA 1996): | | | |
| .1) Created a foreign trust | _____ | _____ | _____ |
| .2) Transferred property to a foreign trust | _____ | _____ | _____ |
| .3) Received distributions, directly or indirectly, from a foreign trust (§ 6048). | _____ | _____ | _____ |
| .4) Received loans, unless with arms-length terms, from a foreign trust. | _____ | _____ | _____ |
| .5) Is a beneficiary of a foreign trust and transferred property to a foreign grantor of the trust. | _____ | _____ | _____ |
| 616) Consider other foreign reporting requirements. Note new foreign trust reporting requirements. (SBJPA 1996) | _____ | _____ | _____ |
| 617) Prepare state and local tax returns (see Nexus Practice Guide) and review each state's modification requirements. Compile apportionment data. | _____ | _____ | _____ |
| Consider the following: | | | |
| .1) State tax credits. | _____ | _____ | _____ |

C CORPORATION INCOME TAX RETURN CHECKLIST
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|---|-------|-------|-------|
| .2) Taxpayer doing business in new states. | _____ | _____ | _____ |
| .3) Unitary or consolidated filing requirements or opportunities. | _____ | _____ | _____ |
| .4) Allocation of investment income. | _____ | _____ | _____ |
| .5) Carryback claims. | _____ | _____ | _____ |
| .6) Applicability of throwback rule for "non-taxed" out of state sales. | _____ | _____ | _____ |
| .7) Estimated taxes. (EFTPS) | _____ | _____ | _____ |
| .8) If appropriate, trace sales from apportionment factor to sales tax returns. | _____ | _____ | _____ |
| .9) Appropriate treatment of federal consolidated return items not reflected in separate company state filings. | _____ | _____ | _____ |
| 618) Extended returns: | | | |
| .1) Attach extension requests. | _____ | _____ | _____ |
| .2) Verify that payments per extensions agree with tax returns. | _____ | _____ | _____ |
| .3) If extension payment did not cover the full tax for the year, consider: | | | |
| (a) Adding interest to balance due. | _____ | _____ | _____ |
| (b) Adding a statement disclosing reasonable cause to avoid the failure to pay penalty (§ 6651(a)(2)). | _____ | _____ | _____ |
| 619) Determine if there have been non-dividend distributions (Form 5452). | | | |
| 620) Information returns: | | | |
| .1) Inquire if taxpayer has complied with magnetic media requirements for Forms 1099 and W-2. | _____ | _____ | _____ |
| .2) Inquire whether the corporation has filed all required information returns (1098, 1099 and 1042) and whether the value of the personal use of employer property, expense reimbursements under "unaccountable plans," and § 401(k) deferred compensation information has been included in employees' W-2s. Note new reporting requirements of certain payments made to attorneys. (TRA 1997) | _____ | _____ | _____ |
| .3) Inquire if additional items subject to employer FICA such as § 401(k) deferrals, employer-provided excess group-term life insurance, all cash tips, etc., have been reported. | _____ | _____ | _____ |

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|---|-------|-------|-------|
| .4) Determine that reimbursement of employee moving expenses and tuition and related expenses are properly reported. (TRA 1997) | _____ | _____ | _____ |
| .5) Inquire whether club dues, spousal travel, etc., are treated as compensation and included on employee's W-2. | _____ | _____ | _____ |
| 621) Inquire if employment taxes were timely deposited. (EFTPS) | _____ | _____ | _____ |
| 622) Inquire if the corporation has updated the corporate minute book. | _____ | _____ | _____ |
| 623) Advise the corporation that any unpaid retirement plan contribution for the year must be made before the due date of the return, including extension. | _____ | _____ | _____ |
| 624) Inquire if the required 5500 series forms have been filed for retirement plans covered by this period. | _____ | _____ | _____ |
| 625) Inquire if the required 5500 series forms have been filed for cafeteria plans and welfare benefit plans (e.g., medical benefit plans, life insurance, disability or death benefit plans that have more than 100 participants). | _____ | _____ | _____ |
| 626) Compare taxable income or loss to projections. | _____ | _____ | _____ |
| 627) Determine that related party transactions are properly reported on all available returns. | _____ | _____ | _____ |
| 628) With respect to related party transactions, determine that the taxpayer has adequate contemporaneous documentation to substantiate the arms length pricing of the transaction. | _____ | _____ | _____ |
| 629) Determine that salary and other transactions between the corporation and officers/shareholders are properly recorded on all available returns. | _____ | _____ | _____ |
| 630) If the corporation is a member of a partnership, consider § 465 at risk and/or § 704(d) basis rules. | _____ | _____ | _____ |
| 631) If corporation sold partnership interest during the year, determine: | | | |
| .1) That the appropriate information was given to the partnership to enable it to prepare Form 8308. | _____ | _____ | _____ |
| .2) That the required statement under Reg. § 1.751-1(a)(3) is attached if partnership had § 751(a) assets. | _____ | _____ | _____ |
| 632) If corporation acquired partnership interest during the year determine that the appropriate information was given to the partnership. (Prop. Reg § 209682-94) | _____ | _____ | _____ |

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633) If a distribution or technical termination has occurred in a partnership in which the corporation is a partner, consider both the new allocation of basis rules under § 732(c) (TRA 1997 and Prop. Reg 1.732-1(c)) and making a § 732(d) election. Note exception for post May 9, 1997, Technical Terminations (Reg § 1.708-1)

634) Consider informing client of requirements to file Form 8300 for certain payments received exceeding \$10,000.

635) Consider whether an "S" election should be made.

636) Note tax planning/additional service suggestions.

COMMENTS OR EXPLANATIONS

MINI-CHECKLIST

S CORPORATION INCOME TAX RETURN

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Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION					
1. Review prior year returns, workpapers, correspondence and audit results.	<input type="checkbox"/>	<input type="checkbox"/>	Like-kind exchanges	<input type="checkbox"/>	<input type="checkbox"/>
			Deferred income/expenses (SBJPA 1996)	<input type="checkbox"/>	<input type="checkbox"/>
2. Document any changes in corporation's name and address, shareholders' names and addresses, FYE, and business code	<input type="checkbox"/>	<input type="checkbox"/>	5. Consider separate reporting of passive activities on K-1 schedules (see Passive Activity Checklist).	<input type="checkbox"/>	<input type="checkbox"/>
3. Consider signed engagement letter.	<input type="checkbox"/>	<input type="checkbox"/>	DEDUCTIONS		
4. Review pro forma/organizer accuracy.	<input type="checkbox"/>	<input type="checkbox"/>	1. Consider uniform capitalization rules.	<input type="checkbox"/>	<input type="checkbox"/>
5. Consider below-market-rate loan rules.	<input type="checkbox"/>	<input type="checkbox"/>	2. Determine deductibility of vacation pay accrual.	<input type="checkbox"/>	<input type="checkbox"/>
6. Determine officers' compensation.	<input type="checkbox"/>	<input type="checkbox"/>	3. Determine applicability of 2½ month deferred comp rule for nonshareholder employees and independent contractors	<input type="checkbox"/>	<input type="checkbox"/>
7. If fiscal year retained, determine that Form 8716 timely filed and "required payments" made.	<input type="checkbox"/>	<input type="checkbox"/>	4. Determine that fringe benefits for more than 2% shareholders are properly reported on W-2 and deducted.	<input type="checkbox"/>	<input type="checkbox"/>
8. Review methods of accounting.	<input type="checkbox"/>	<input type="checkbox"/>	5. Inquire if travel and entertainment expenses are substantiated by adequate records.	<input type="checkbox"/>	<input type="checkbox"/>
9. Consider recurring item exception election for accrual method taxpayers.	<input type="checkbox"/>	<input type="checkbox"/>	6. Limit meals and entertainment to allowable percentage.	<input type="checkbox"/>	<input type="checkbox"/>
10. Update carryforward schedules including effect of prior period tax audits.	<input type="checkbox"/>	<input type="checkbox"/>	7. Consider the following for officers and shareholders:		
11. Review financial statements and footnotes for relevant information.	<input type="checkbox"/>	<input type="checkbox"/>	Nondeductible officers' life insurance.	<input type="checkbox"/>	<input type="checkbox"/>
12. Include QSSS activity.	<input type="checkbox"/>	<input type="checkbox"/>	Limitation on losses, or accruals between related parties.	<input type="checkbox"/>	<input type="checkbox"/>
13. Consider filing power of attorney.	<input type="checkbox"/>	<input type="checkbox"/>	Inadequate compensation.	<input type="checkbox"/>	<input type="checkbox"/>
INCOME			8. Limit interest incurred to purchase or carry market discount bonds or short-term debt obligations.	<input type="checkbox"/>	<input type="checkbox"/>
1. Compare portfolio income with prior year.	<input type="checkbox"/>	<input type="checkbox"/>	9. Limit retirement contributions to allowable amount.	<input type="checkbox"/>	<input type="checkbox"/>
2. Include only trade or business income on page 1, Form 1120S.	<input type="checkbox"/>	<input type="checkbox"/>	10. Properly report expenses allocable to portfolio income on Schedules K and K-1 and not deducted on page 1, 1120S.	<input type="checkbox"/>	<input type="checkbox"/>
3. Determine that dispositions of property are reported properly.	<input type="checkbox"/>	<input type="checkbox"/>	11. Consider limitations on deductibility of:		
4. Consider the following:			Bad debts	<input type="checkbox"/>	<input type="checkbox"/>
Ordinary income on market discount bonds and deferral of related interest expense	<input type="checkbox"/>	<input type="checkbox"/>	Club dues	<input type="checkbox"/>	<input type="checkbox"/>
Installment sales and related interest charge on deferred tax	<input type="checkbox"/>	<input type="checkbox"/>	Lobbying expense/Association dues	<input type="checkbox"/>	<input type="checkbox"/>
Sales or exchanges between the corporation and shareholder or other related parties	<input type="checkbox"/>	<input type="checkbox"/>	Casualty loss	<input type="checkbox"/>	<input type="checkbox"/>
At risk rules	<input type="checkbox"/>	<input type="checkbox"/>	Stock option compensation	<input type="checkbox"/>	<input type="checkbox"/>
Discharge of indebtedness	<input type="checkbox"/>	<input type="checkbox"/>	DEPRECIATION/AMORTIZATION		
Worthless securities	<input type="checkbox"/>	<input type="checkbox"/>	1. Consider the following:		
2. Compute AMT depreciation.	<input type="checkbox"/>	<input type="checkbox"/>	§ 179 election	<input type="checkbox"/>	<input type="checkbox"/>
			Methods and lives	<input type="checkbox"/>	<input type="checkbox"/>
			Listed property	<input type="checkbox"/>	<input type="checkbox"/>
			Capitalization of leased property	<input type="checkbox"/>	<input type="checkbox"/>
			Amortization of goodwill and other intangibles	<input type="checkbox"/>	<input type="checkbox"/>

MINI-CHECKLIST

S CORPORATION INCOME TAX RETURN

1998 - FORM 1120S

Done N/A

Done N/A

TAX COMPUTATION AND CREDITS

Consider the following:

Tax on excess net passive income	<input type="checkbox"/>	<input type="checkbox"/>
Tax on built-in gain	<input type="checkbox"/>	<input type="checkbox"/>
Tax on capital gains	<input type="checkbox"/>	<input type="checkbox"/>
Credit recapture tax	<input type="checkbox"/>	<input type="checkbox"/>
Estimated federal and state tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Tax credits (SBJPA 1996 and TRA 1997)	<input type="checkbox"/>	<input type="checkbox"/>

SHAREHOLDER INFORMATION

1. Shareholder allocation/limitation:

Determine that income, deductions, and credits are allocated to the shareholders on a per-share, per-day basis.	<input type="checkbox"/>	<input type="checkbox"/>
If complete termination occurred, consider specific cut off.	<input type="checkbox"/>	<input type="checkbox"/>
Attach shareholder consent and statement of election. (Prop. Reg. § 1.1377-1)	<input type="checkbox"/>	<input type="checkbox"/>

2. Shareholder distribution/basis computations:

Determine that equity increases and decreases (Schedule M) are properly segregated among:

Accumulated adjustment account	<input type="checkbox"/>	<input type="checkbox"/>
Other adjustments account	<input type="checkbox"/>	<input type="checkbox"/>
Shareholders undistributed PTI	<input type="checkbox"/>	<input type="checkbox"/>

Determine proper reporting if distributions exceed accumulated adjustment account.	<input type="checkbox"/>	<input type="checkbox"/>
--	--------------------------	--------------------------

Determine that gains are recognized and allocated to each shareholder for distribution of appreciated property.	<input type="checkbox"/>	<input type="checkbox"/>
---	--------------------------	--------------------------

3. Consider Shareholder Basis Practice Guide. ☐ ☐

K-1 INFORMATION

- | | | |
|--|--------------------------|--------------------------|
| 1. Properly reflect shareholders' shares of all items that affect tax liability. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Segregate and report tax preference and adjustment items. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Determine that information relating to interest expense on debt-financed distributions has been provided. | <input type="checkbox"/> | <input type="checkbox"/> |

OTHER

1. Consider elections and statements such as:

Cash vs. accrual	<input type="checkbox"/>	<input type="checkbox"/>
Amortize organization expenses	<input type="checkbox"/>	<input type="checkbox"/>
Expense intangible drilling costs	<input type="checkbox"/>	<input type="checkbox"/>
Method of valuation of inventory	<input type="checkbox"/>	<input type="checkbox"/>
Ratable accrual of real property taxes (first year only)	<input type="checkbox"/>	<input type="checkbox"/>
Amortize business start-up cost	<input type="checkbox"/>	<input type="checkbox"/>
Research and experimental cost	<input type="checkbox"/>	<input type="checkbox"/>
Exception from economic performance for recurring clients (first year only)	<input type="checkbox"/>	<input type="checkbox"/>

2. Consider risk of accuracy-related penalty. (§ 6662) ☐ ☐

3. Inquire whether all required information returns have been filed. ☐ ☐

4. Prepare state and local tax returns and report necessary shareholder information. ☐ ☐

5. Attach extension requests. ☐ ☐

6. Note tax planning/additional service suggestions. ☐ ☐

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120S

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review permanent file, prior year returns, workpapers, etc.	_____	_____	_____
102) Review and update the S corporation and shareholder's names, addresses, fiscal year, incorporation date, business code, identification numbers, and IRS and other tax processing centers. Note changes.	_____	_____	_____
103) Consider signed engagement letter.	_____	_____	_____
104) Review computer-generated pro forma/organizer for accuracy.	_____	_____	_____
105) Obtain information concerning IRS, state tax audits and/or correspondence.	_____	_____	_____
106) Inquire whether the S corporation has made or received any below-market-rate loans. If so, determine imputed interest consequences.	_____	_____	_____
107) Review for adequate interest on new or modified debt instrument.	_____	_____	_____
108) If the corporation has selected an allowable fiscal tax year, determine that Form 8716 has been timely filed, and that "required payments" have been made.	_____	_____	_____
109) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
110) Ascertain officers' compensation and review for reasonableness.	_____	_____	_____
111) Review and update schedules for carryforward items and effect of prior tax audits.	_____	_____	_____
112) Review financial statements and footnotes for relevant information.	_____	_____	_____
113) Review Board minutes.	_____	_____	_____
114) Consider filing power of attorney.	_____	_____	_____
115) If the corporation owns a QSSS include all activity on the return. (SBJPA 1996)	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1998-FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
200) INCOME			
201) Compare sources and amounts of portfolio income with prior year.	_____	_____	_____
202) Determine that only trade or business (e.g., not portfolio or rental) income is reported on Page 1 of Form 1120S.	_____	_____	_____
203) Review dispositions of property for holding period and federal, state, AMT bases. Consider nonrecognition, gains, losses and recaptures. (SBJPA 1996 and TRA 1997)	_____	_____	_____
204) Consider the following:			
.1) Wash sales.	_____	_____	_____
.2) Sales or exchanges between the corporation and shareholder.	_____	_____	_____
.3) Worthless securities.	_____	_____	_____
.4) At risk rules.	_____	_____	_____
.5) Installment sales and related interest charged on deferred tax.	_____	_____	_____
.6) Discharge of indebtedness.	_____	_____	_____
.7) Tax-exempt income and related interest expense disallowance.	_____	_____	_____
.8) Like-kind exchanges and related party exchanges (Form 8824).	_____	_____	_____
.9) Straddle rules and § 1092 election.	_____	_____	_____
.10) Gains on constructive sales of appreciated financial position. (TRA 1997)	_____	_____	_____
205) Determine that deferred income and expenses for book purposes are properly reported for tax purposes. (SBJPA 1996)	_____	_____	_____
206) If the S corporation has passive income or losses from one or more activities, they may be required to be separately reported on the Schedule K-1 (see Passive Activity Checklist).	_____	_____	_____
207) Consider appropriate income inclusion amount for leased property. (See Vehicle Related Guides).	_____	_____	_____
208) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
209) Consider mark to market rules for "dealers in securities" (§ 475).	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1998-FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
300) DEDUCTIONS			
301) Identify any nondeductible vacation pay accrual.	_____	_____	_____
302) Consider the uniform capitalization rules.	_____	_____	_____
303) Determine that fringe benefits for more than 2% shareholders have been reported on the recipient shareholders' W-2s (usually non FICA wages) and claimed as a deduction by the S corporation.	_____	_____	_____
304) Inquire whether the S corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method.	_____	_____	_____
305) Limit deduction for meals and entertainment to allowable percentage. Consider exceptions.	_____	_____	_____
306) Determine the deductibility of club dues.	_____	_____	_____
307) Determine that expenses allocable to portfolio income have not been deducted on Page 1, Form 1120S.	_____	_____	_____
308) Determine that retirement plan contributions are made timely and within allowable limits.	_____	_____	_____
309) Determine that specific charge off method is used for bad debts.	_____	_____	_____
310) Officers and shareholders:			
.1) Determine the ownership of life insurance policies and the proper treatment of related expenses.	_____	_____	_____
.2) Identify expenses, including interest if applicable, for officers' life insurance which are non deductible.	_____	_____	_____
.3) Determine limitation on any losses or accruals of expenses during the year between related corporations/shareholders under § 267(a)(1).	_____	_____	_____
.4) Determine if expenses to shareholders (§ 267(e)) or other related parties on the cash basis were paid by corporation's year end.	_____	_____	_____
.5) Consider reasonableness of compensation to shareholders who perform substantial services.	_____	_____	_____
311) Determine if compensation deductions are allowable with respect to qualified and nonqualified stock options.	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1998-FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
312) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
313) Verify that the proper allocations have been made dividing interest expense among various types of expenditures.	_____	_____	_____
314) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
315) Consider limitations of deductibility of lobbying expenses/association dues.	_____	_____	_____
316) Consider economic performance requirement and recurring item exceptions.	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) Consider all depreciation requirements and options including:			
.1) § 179 election. (Note new allowable amounts, SBJPA 1996)	_____	_____	_____
.2) Methods and lives.	_____	_____	_____
.3) Requirements relating to listed property.	_____	_____	_____
.4) Determine if leased property should be capitalized.	_____	_____	_____
.5) Consider 36-month depreciation rules for software.	_____	_____	_____
402) Consider AMT depreciation.	_____	_____	_____
403) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
500) TAX COMPUTATION AND CREDITS			
501) Consider tax on excess net passive income.	_____	_____	_____
502) Consider tax on built-in gain.	_____	_____	_____
503) Consider tax on capital gains.	_____	_____	_____
504) Consider credit recapture.	_____	_____	_____
505) Claim current year estimated tax payments, prior year overpayments applied and extension payments.	_____	_____	_____
506) Consider requirement for estimated tax payments. (EFTPS)	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1998-FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
507) Consider tax credits. (SBJPA 1996 and TRA 1997)	_____	_____	_____
508) If member of a controlled group, attach apportionment schedules.	_____	_____	_____
600) SHAREHOLDER INFORMATION			
601) Shareholder allocation/limitation:			
.1) Determine that items of income, deductions, credits, etc., are allocated to the shareholders on a per-share, per-day basis.	_____	_____	_____
.2) If stock transfers occurred during the year resulting in a termination of a shareholder's interest, consider allocations based on time of actual occurrence. Attach the affected shareholder's and corporation's statement of election. (SBJPA 1996)	_____	_____	_____
602) Shareholder distribution/basis computations:			
.1) Determine that equity increases and decreases (Schedule M) are properly segregated between:			
(a) Accumulated adjustment account.	_____	_____	_____
(b) Other adjustments account.	_____	_____	_____
(c) Shareholders' undistributed PTI.	_____	_____	_____
.2) Determine that distributions exceeding accumulated adjustment account for S corporations with earnings and profits from C years are reported (Form 1099-DIV) to shareholders as dividends to the extent of accumulated earnings and profits. Note current year net reductions are disregarded in this computation. (SBJPA 1996)	_____	_____	_____
.3) For distributions of appreciated property, determine that gain is recognized and allocated to each shareholder.	_____	_____	_____
.4) Consider Shareholder Basis Practice Guide.	_____	_____	_____
700) K-1 INFORMATION			
701) Determine that proper reporting has been provided for all items on Schedule K-1 that affect shareholder's tax liability.	_____	_____	_____
702) Provide information about nontaxable income and nondeductible expenses to enable shareholders to make adjustments to basis of their stock.	_____	_____	_____
703) Segregate all tax preference and adjustment items and report on the appropriate lines.	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1998-FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
704) Determine that information relating to interest expense of debt-financed distributions to shareholders has been provided. (Notice 89-35)	_____	_____	_____
800) OTHER REQUIREMENTS			
801) Consider elections such as:			
.1) Cash vs. accrual.	_____	_____	_____
.2) Amortization of organization expense.	_____	_____	_____
.3) Expense intangible drilling costs.	_____	_____	_____
.4) Method for valuation of inventory.	_____	_____	_____
.5) Ratable accrual of real property taxes (first year only).	_____	_____	_____
.6) Amortization of business start-up costs.	_____	_____	_____
.7) Research and experimental cost.	_____	_____	_____
.8) Exception from economic performance for recurring items (first year only).	_____	_____	_____
802) If the corporation was a party to an "applicable asset acquisition," determine that the reporting requirements have been met (Form 8594).	_____	_____	_____
803) Reconcile income and expenses per books with return.	_____	_____	_____
804) Consider risk of accuracy-related penalty (§ 6662).	_____	_____	_____
805) Prepare state and local tax returns. Furnish necessary information to shareholders. (See Nexus Practice Guide).	_____	_____	_____
806) Attach extension requests.	_____	_____	_____
807) Inquire if employee benefit plans have been reviewed to determine if they are in compliance due to changing corporate circumstances and law changes.	_____	_____	_____
808) Inquire if information returns (1098 and 1099 series) have been filed.	_____	_____	_____
809) Inquire if employment taxes were timely deposited. (EFTPS)	_____	_____	_____
810) Compare taxable income to projections.	_____	_____	_____
811) Determine that related transactions are properly reported on all available returns.	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
1998-FORM 1120S

<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATIONS</u>
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812) Note tax planning/additional service suggestions.

_____	_____	_____
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COMMENTS OR EXPLANATIONS

S CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120S

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review permanent file, prior year returns, memos, workpapers, carryovers and correspondence files.	_____	_____	_____
102) Review the S corporation and shareholder's names, addresses, fiscal year, incorporation date, business code, identification numbers, and IRS and other tax processing centers. Note changes.	_____	_____	_____
103) Consider signed engagement letter.	_____	_____	_____
104) Review computer-generated pro forma/organizer for accuracy.	_____	_____	_____
105) If the S corporation has been examined by the Internal Revenue Service, state or local taxing authority:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine that the agent's adjustments have been entered on the S corporation's records, and appropriate carryover workpapers.	_____	_____	_____
.3) If the agent's adjustments affect income tax returns of years other than those audited, or the corresponding federal or state returns for the same year, consider filing amended returns.	_____	_____	_____
.4) Inquire whether the S corporation has informed the shareholders of examination by the IRS or state agency.	_____	_____	_____
106) Obtain correspondence with the IRS or state taxing authorities. Consider impact.	_____	_____	_____
107) Inquire whether the S corporation has made or received any below-market-rate loans. Determine imputed interest consequences and existence of properly executed note.	_____	_____	_____
108) Review for adequate stated interest on debt instruments:			
.1) Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.	_____	_____	_____
.2) Consider election for purchased discount under § 1278.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST **1998 - FORM 1120S**

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATION</u>
109) Review for proper reporting of interest recognition in accordance with Reg. §§ 1.483-4 and 1.1274-5 for debt instruments providing contingent payments.	_____	_____	_____
110) Election/revocation/termination of S status:			
.1) If S status was <u>elected</u> during the current year:			
(a) Confirm that IRS (and state if applicable) approval of the election has been received and is in effect for the current year.	_____	_____	_____
(b) Consider scheduling potential "built-in" gains at date of election.	_____	_____	_____
(c) Consider requesting relief of an invalid election under §§ 1362(b)(5) and 1362(f). (SBJPA 1996)	_____	_____	_____
.2) If the S status was <u>revoked</u> during the current year:			
(a) Confirm that a revocation was properly filed.	_____	_____	_____
(b) Determine whether the revocation is effective for the entire year (if filed within the first 2½ months of the year) or prospectively.	_____	_____	_____
(c) Obtain a copy of IRS approval letter.	_____	_____	_____
.3) Events terminating S status:			
(a) Determine that no disqualifying event has occurred related to excess number of shareholders, prohibited type of shareholder or issuance of a second class of stock. Consider SBJPA 1996 changes regarding number of shareholders, types of shareholders and safe harbor debt.	_____	_____	_____
(b) Determine that termination is not triggered by excess passive income for three consecutive years if corporation has C corporation accumulated earnings and profits. Note passive income exclusion of dividends from 80% or greater subsidiary attributable to E&P derived from an active trade or business. (SBJPA 1996)	_____	_____	_____
.4) If S status was <u>terminated</u> or revoked during the year:			
(a) Verify allocation method - per day basis or actual. More than 50% cumulative change in stock ownership during the year requires actual. If electing actual, match the election and the shareholders' consent.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(b) Consider C corporation estimated tax payments for the succeeding year based on the S corporation's net income.	<hr/>	<hr/>	<hr/>
(c) Consider requesting relief under the "inadvertent termination rule" under § 1362(f). (SBJPA 1996)	<hr/>	<hr/>	<hr/>
111) If the corporation owns a "qualified subchapter S subsidiary" include all assets, liabilities, and items of income, deduction and credits of the QSSS on the return. (SBJPA 1996)	<hr/>	<hr/>	<hr/>
112) If the corporation has selected an allowable fiscal tax year, determine that Form 8716 has been timely filed, and that "required payments" have been made. Note that a copy of Form 8716 must be attached to Form 1120S for the first taxable year for which the election is made.	<hr/>	<hr/>	<hr/>
113) If the corporation is on the cash basis, determine if the accrual basis is required.	<hr/>	<hr/>	<hr/>
114) Determine that accounting methods are comparable to the preceding year unless changes are approved or required.	<hr/>	<hr/>	<hr/>
115) Consider economic performance requirements and recurring item exceptions.	<hr/>	<hr/>	<hr/>
116) Review and update schedules for federal and state carryover items (regular and AMT) such as:			
.1) Prior year deferred deductions.	<hr/>	<hr/>	<hr/>
.2) Installment sales. Consider applicable tax rates for components of gain.	<hr/>	<hr/>	<hr/>
.3) Changes in accounting methods requiring § 481 adjustments.	<hr/>	<hr/>	<hr/>
.4) Suspended losses/credits due to at-risk limitations.	<hr/>	<hr/>	<hr/>
.5) Compare losses to basis limitations to determine deductibility of losses; update basis schedules accordingly.	<hr/>	<hr/>	<hr/>
.6) Net unrealized built-in gain.	<hr/>	<hr/>	<hr/>
117) Review financial statements and footnotes for relevant information.	<hr/>	<hr/>	<hr/>
118) Review Board minutes.	<hr/>	<hr/>	<hr/>
119) Review prior year's return schedule M-1 for items which may have an effect upon or require similar treatment in the current year.	<hr/>	<hr/>	<hr/>

S CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
120) Consider filing power of attorney.	_____	_____	_____
121) Determine if the corporation (SBJPA 1996):			
.1) Created a foreign trust.	_____	_____	_____
.2) Transferred property to a foreign trust.	_____	_____	_____
.3) Received distributions, directly or indirectly, from a foreign trust (§ 6048).	_____	_____	_____
.4) Received loans, unless with arms-length terms, from a foreign trust.	_____	_____	_____
.5) Is a beneficiary of a foreign trust and transferred property to a foreign grantor of the trust.	_____	_____	_____
200) INCOME			
201) Compare sources and amounts of portfolio income with prior year.	_____	_____	_____
202) Determine that only trade or business (e.g., not portfolio or rental) income is shown on page 1 of Form 1120S.	_____	_____	_____
203) Determine that installment sales are reported properly.			
.1) Consider related party rules.	_____	_____	_____
.2) Determine that the full amount of depreciation recapture is reported in the year of sale whether or not payment was received in that year.	_____	_____	_____
.3) Review for adequate stated interest on debt instruments received in connection with the sale. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.	_____	_____	_____
.4) If the taxpayer is a "dealer" with respect to the related property:	_____	_____	_____
(a) Determine that the installment method is <u>not</u> used to report post- December 31, 1987 sales of dealer property. (Exceptions - farm property, certain timeshare rights and residential lots if proper election is made.)	_____	_____	_____
(b) Determine that the interest owed as a result of an election in (a) above is properly reported. Note that interest calculation is made at shareholder level.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(c) Consider that manufacturers of tangible personal property will not be eligible to use the installment method for sales to dealers after August 5, 1998. (TRA 1997)	<hr/>	<hr/>	<hr/>
.5) Consider special rules for installment reporting by certain non-dealers of real (post-1986 sales) or personal property (post-1988 sales) where the sales price exceeds \$150,000 (§ 453A). (Does not apply to certain farm property.)	<hr/>	<hr/>	<hr/>
(a) Compute the interest charge imposed on outstanding tax deferred installment obligations if the face amount of these obligations that arose during, and are still outstanding at the close of the tax year exceeds \$5,000,000. Note that the \$5,000,000 threshold test and interest calculation are done at the shareholder level. (Announcement 89-33).	<hr/>	<hr/>	<hr/>
(b) Determine that the proper amount is treated as a collection on any pledged installment obligation.	<hr/>	<hr/>	<hr/>
.6) Consider election out of installment method.	<hr/>	<hr/>	<hr/>
.7) Determine if an event has occurred requiring accelerated recognition of the remaining unreported gain (e.g., resale rule for related parties, cancellation of the installment obligation, disposition of the installment obligation).	<hr/>	<hr/>	<hr/>
204) For disposed property:			
.1) Reconcile to depreciation schedule.	<hr/>	<hr/>	<hr/>
.2) Determine holding period and federal, state, and AMT tax bases.	<hr/>	<hr/>	<hr/>
.3) Determine that gains and losses are properly characterized:			
(a) Ordinary, § 1231, capital.	<hr/>	<hr/>	<hr/>
(b) Long term, short term. Note holding period changes. (IRS 1998)	<hr/>	<hr/>	<hr/>
.4) Consider the provisions related to:			
(a) Non-recognition of gain or loss. (Form 8824) Note restrictions on exchange of U.S. property for foreign property. (TRA 1997)	<hr/>	<hr/>	<hr/>
(b) Rules for like-kind and related party exchanges. (Form 8824)	<hr/>	<hr/>	<hr/>

S CORPORATION INCOME TAX RETURN CHECKLIST

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(c) Recapture of depreciation (including § 291 recapture) and/or tax credit, or reduction of credit carryforwards. Note § 1245 applications. (TRA 1997)	_____	_____	_____
(d) Presumption of capital gain relating to subdivision of land. § 1237 (SBJPA 1996)	_____	_____	_____
(e) Gain from distributions of appreciated property.	_____	_____	_____
(f) Forced sale of livestock on account of weather related conditions.	_____	_____	_____
(g) Election to rollover gain from the sale of qualified small business stock. (IRS 1998)	_____	_____	_____
205) Deferred income and expenses:			
.1) Include in gross income, as appropriate, income deferred for books in the current year.	_____	_____	_____
.2) Exclude from gross income, as appropriate, income for books in the current year that was taken into income for tax in a prior year.	_____	_____	_____
.3) Consider whether there are any advance payments for goods that can be determined under Reg. § 1.481-5. Note the information schedule requirements.	_____	_____	_____
.4) Consider any advance payments for services under Rev. Proc. 71-21.	_____	_____	_____
.5) Determine deductibility of prepaid expenses.	_____	_____	_____
206) Review application of the wash sale rules.			
207) Report gains on constructive sales of appreciated financial positions occurring after June 8, 1997. (TRA 1997)	_____	_____	_____
208) Review application of straddle rules and available elections under § 1092.	_____	_____	_____
209) Determine that sales of securities settled after year end, with a trade date within current year, are reported this year. Note special rules for short sales in § 1233.	_____	_____	_____
210) Determine if there were passive activities. Note requirement to group activities. (See Passive Activity Checklist)	_____	_____	_____
211) Inquire if securities held by the S corporation became worthless during the year. Note that substantial worthlessness of short sale property is a gain recognition event. (TRA 1997)	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
212) Report rental real estate activities on Form 8825.	_____	_____	_____
213) For leased property, calculate the appropriate income inclusion amount to be reported by referring to the IRS tables. (See Vehicle Related Guides)	_____	_____	_____
214) Determine if there is income from discharge of indebtedness.	_____	_____	_____
.1) Consider exclusion and elections under § 108. (See new amendments to proposed amendment to Reg. 1.1017-1)	_____	_____	_____
.2) Consider Form 982.	_____	_____	_____
.3) Review TAM 9423003 and the impact on basis.	_____	_____	_____
215) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
216) Inquire if the taxpayer engaged in bartering transactions.	_____	_____	_____
217) Consider limitations of losses for transactions with related parties.	_____	_____	_____
218) Consider the mark to market rules for "dealers in securities." Warning: the definition of "dealers in securities" contained in § 475 is not limited to Wall Street brokerage firms. The expansive definition includes many taxpayers involved in lending transactions and various seller financed activities.	_____	_____	_____
.1) Determine that § 475 assets are adjusted to fair market value at the end of the year.	_____	_____	_____
.2) Determine the § 481 adjustment.	_____	_____	_____
.3) Amortize the § 481 adjustment over 5 years (15 years for certain floor specialists and market makers) beginning with the year of change.	_____	_____	_____
.4) Determine if exempt securities were timely identified in taxpayer books and records.	_____	_____	_____
.5) Consider loss limitations for:			
(a) Securities not properly identified.	_____	_____	_____
(b) Non financial customer paper. (IRS 1998)	_____	_____	_____
219) If a 1099-OID is received, compute for includible amount.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
220) Consider exclusion from income of cash or rent reduction received from lessor under a short-term lease of retail space utilized to construct leasehold improvements which will revert to the lessor at termination of lease. (TRA 1997)	_____	_____	_____
300) DEDUCTIONS			
301) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis (vested at year end and paid within two and one-half months after year end).	_____	_____	_____
302) Consider applicability of uniform capitalization rules to resellers with annual gross receipts in excess of \$10 million and all producers of property. (Note final regulations related to general rules (§ 1.263A-1), producers (§ 1.263A-2) and resellers (§ 1.263A-3)).	_____	_____	_____
.1) Determine that all costs are included.	_____	_____	_____
.2) Consider interest capitalization rules for debt incurred to produce property.	_____	_____	_____
.3) If the beginning inventory is revalued:			
(a) Ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (§ 481).	_____	_____	_____
(b) Ascertain § 481 forward spread period (not to exceed four years).	_____	_____	_____
(c) Determine that Form 3115 is attached to the tax return for the year of change.	_____	_____	_____
(d) Consider electing "simplified" methods.	_____	_____	_____
.4) For farmers and ranchers consider:			
(a) One-time election out of uniform capitalization rules if election was not required in a prior year.	_____	_____	_____
(b) The exemption for expenses incurred in the production of animals.	_____	_____	_____
.5) Review the definition of "produce".	_____	_____	_____
303) Long-Term Contracts			
.1) Determine if the taxpayer is subject to the long-term contract reporting rules requiring that the percentage of completion method, instead of the completed contract method, be used to determine taxable income. Note exceptions for certain			

S CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
qualifying construction contracts and most contracts for the manufacture of property.	_____	_____	_____
.2) In determining whether contracts of the taxpayer are subject to the percentage of completion method of reporting, consider:			
(a) Related party rules.	_____	_____	_____
(b) Contract aggregation rules.	_____	_____	_____
.3) Determine that the percentage of completion is calculated based on costs incurred, not work performed.	_____	_____	_____
.4) Determine that all required costs have been allocated to the contracts. Note the expanded requirement to capitalize costs similar to the uniform capitalization rules.	_____	_____	_____
.5) Consider electing the simplified method of allocating costs, whereby fewer costs are taken into account, to determine the degree of contract completion.	_____	_____	_____
.6) Consider electing the modified percentage of completion method, whereby the recognition of income and accounting for costs is deferred until the first tax year in which at least 10% of the estimated total contract costs have been incurred as of the end of that year. Note that this election is not available if the simplified method above has been elected.	_____	_____	_____
.7) Upon completion of a contract, determine that the "look-back rule" has been applied to compare actual contract price and costs to previously used estimates and pay/claim interest on the related changes in prior years taxes on Form 8697. Note that certain small contracts are not subject to the "look-back rule." See TRA 1997 for changes in interest calculations and election to not apply lookback method.	_____	_____	_____
304) For charitable contributions:			
.1) Inquire if all contributions are to qualified charitable organizations.	_____	_____	_____
.2) Consider the limitation related to contributions of appreciated ordinary income property.	_____	_____	_____
.3) Consider the deduction for more than cost of appreciated capital gains property.	_____	_____	_____
.4) Inquire if adequate contemporaneous documentation was obtained for charitable contributions made of \$250 or more.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Ascertain that minutes document authorization before year end for accrued charitable contributions, and contributions are paid by the 15th day of the 3rd month after the end of the tax year. An election statement and a certified copy of the minutes must be attached to the return.	_____	_____	_____
.6) Determine if Form 8283 is required for non-cash gifts.	_____	_____	_____
305) Inquire if fringe benefits for more than 2% shareholders claimed as deductions by the S corporation have been reported on the recipient shareholders' W-2s as wages subject to income tax.	_____	_____	_____
306) Inquire whether the S corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method and note limitation on deductibility of certain nonemployee travel expenses. Note \$25 limit on gifts. Note new \$75 substantiation requirement (see Reg. § 1.274-5T(c)(2)(iii)).	_____	_____	_____
307) Limit deduction for meals and entertainment to allowable percentage. Consider exceptions.	_____	_____	_____
308) Determine the deductibility of club dues.	_____	_____	_____
309) Determine that expenses allocable to portfolio income have not been deducted on page 1, Form 1120S.	_____	_____	_____
310) Determine if professional fees and/or employee salaries require capitalization.	_____	_____	_____
311) If taxpayer maintains a profit sharing plan and has not contributed the maximum contribution for each taxable year beginning prior to 1987, calculate the unfunded contribution carryover amount.	_____	_____	_____
312) Determine that specific write-off method is used for bad debts.	_____	_____	_____
313) Review partially worthless debt for write-off under Reg. § 1.166-3.	_____	_____	_____
314) Officers and shareholders:			
.1) Determine the ownership of life insurance policies and the proper treatment of related expenses.	_____	_____	_____
.2) Determine deductibility of disability insurance premiums.	_____	_____	_____
.3) If there were any accruals of interest, compensation or other expenses payable to a shareholder or other related parties, determine that for tax purposes the deduction is deferred until the year in which it is includible in income of the shareholder.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) Consider if compensation to shareholders who perform substantial services for the corporation was sufficient.	_____	_____	_____
.5) Consider whether there is a potential reasonable compensation issue.	_____	_____	_____
.6) Review documentation of shareholder loans.	_____	_____	_____
315) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
316) Interest considerations:			
.1) Treat amortizable bond premium (for bonds acquired after 1987) as an offset to interest income.	_____	_____	_____
.2) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on current on former beneficial owners and key employees to the extent that the total of such loans exceeds \$50,000. Note phase-in rules under 1996 HIPAA and additional limitations for new or materially changed contracts issued after limitations June 8, 1997. (TRA 1997)	_____	_____	_____
.3) Determine that the proper allocations have been made by type (trade or business, investment, passive activity, tax-exempt expenditures, etc.).	_____	_____	_____
.4) Determine that proper allocation of interest expense has been made if the proceeds of a loan were used for more than one purpose.	_____	_____	_____
.5) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
.6) Determine if there is an allowable interest deduction related to deferred compensation agreements.	_____	_____	_____
.7) Capitalize interest and carrying charges on straddles (§ 263(g)).	_____	_____	_____
.8) Determine if there is nondeductible disqualified debt interest under § 163(1). (TRA 1997)	_____	_____	_____
317) Consider limitations on deducting expenses related to federally tax exempt income. Note that these expenses may be deductible at the state level if the related income is state taxable.	_____	_____	_____
318) Determine that certain lobbying expenses are not deducted. Note exceptions.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
319) Inquire if dues include nondeductible lobbying expenses.	_____	_____	_____
320) Determine if compensation deductions are allowable with respect to:			
.1) Current or past transfers of property that are no longer subject to a substantial risk of forfeiture. (§ 83)	_____	_____	_____
.2) Disqualifying dispositions of stock under incentive stock options. (§ 422)	_____	_____	_____
.3) Employee stock purchase plans. (§ 423)	_____	_____	_____
.4) Exercise of nonqualified stock options for stock without a readily ascertainable fair market value.	_____	_____	_____
.5) Consider requirement for inclusion in W-2 and appropriate withholding.	_____	_____	_____
321) Determine that retirement plan contributions have been calculated using the eligible compensation limit and were timely made. Obtain a listing of dates and amounts of payments. Note repeal of the family aggregation rules. (SBJPA 1996)	_____	_____	_____
322) Determine if deductions should be reduced by credits claimed.	_____	_____	_____
323) Determine proper treatment of environmental clean-up expenses. Note new expense election. (TRA 1997)	_____	_____	_____
324) Determine whether inventory write-down for book purposes should be adjusted for tax. Note TRA 1997 allows estimated inventory shrinkage.	_____	_____	_____
325) Determine proper treatment for long-term leases where leases provide for deferred payments or increasing payments under § 467. Also see proposed Reg. 1.467.	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) For assets placed in service during the current year:			
.1) Consider § 179 election to expense qualifying assets. Note new allowable amounts. (SBJPA 1996)	_____	_____	_____
.2) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property placed in service after June 30, 1993.	_____	_____	_____
.3) Determine the depreciable basis of each asset.	_____	_____	_____
.4) Determine the property class, recovery period and depreciation method for each asset. Note new limitations on property qualifying			

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
for income forecast method and designated lives of rent-to-own property. (TRA 1997)	_____	_____	_____
.5) Determine the applicable convention (half-year, mid-quarter or mid-month).	_____	_____	_____
.6) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period.	_____	_____	_____
.7) Consider 36-month depreciation rules for software.	_____	_____	_____
.8) Consider reduced depreciable lives for real estate improvements and special use structure.	_____	_____	_____
.9) Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property.	_____	_____	_____
.10) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.	_____	_____	_____
.11) If property is leased to a tax-exempt entity, consider the possible need to use the ADS.	_____	_____	_____
.12) Consider depreciation limitations for IDB financed property, and certified historic structures for which a tax credit was taken.	_____	_____	_____
.13) If a short year, determine that Rev. Proc. 89-15 is followed.	_____	_____	_____
.14) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).	_____	_____	_____
.15) Determine if interest is payable under look-back method where income forecast depreciation method is used (SBJPA 1996). Note interest calculation change. (TRA 1997)	_____	_____	_____
.16) Consider accelerated depreciation for qualifying property located on Indian reservations.	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
403) Consider the provision of Rev. Proc. 96-31 to rectify prior year claims of less than allowable depreciation or amortization.	_____	_____	_____
404) Determine if leased property/equipment should be capitalized.	_____	_____	_____
405) Consider anti-churning rules.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
406) For listed property (e.g., cellular phones, autos, computers, airplanes, boats):			
.1) For autos, consider the maximum allowable under the luxury auto rules. Note TRA 1997 exceptions for clean living and electric vehicles.	_____	_____	_____
.2) For autos, determine limitation if the business usage is 50% or less.	_____	_____	_____
.3) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	_____	_____	_____
.4) Inquire if the taxpayer has kept the required records indicating the business and personal use of property.	_____	_____	_____
5) Determine recapture if the business usage is 50% or less.	_____	_____	_____
407) Form 4562 (if required):			
.1) Reconcile depreciation expense to supporting schedules.	_____	_____	_____
.2) Complete questions regarding personal use of listed property.	_____	_____	_____
.3) If the costs were incurred during the current year, determine that amortizable items are separately stated and the proper Code section cited.	_____	_____	_____
408) Consider state depreciation, if different.	_____	_____	_____
409) Consider federal and state AMT depreciation. Note: depreciable lives of tangible personal property placed in service after 1997 are the same for regular and AMT purposes. (TRA 1997)	_____	_____	_____
410) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.	_____	_____	_____
500) TAX COMPUTATION AND CREDITS			
501) Tax on excess net passive income:			
.1) Determine if passive investment income is greater than 25% of gross receipts and the S corporation has earnings and profits from any C years. Note passive income exclusion of dividends from an 80% or greater subsidiary attributable to E&P from an active trade or business. (SBJPA 1996)	_____	_____	_____
.2) Consider election to designate distributions as deemed out of earnings and profits. (§ 1368(e)(3))	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Consider election to forego previously taxed income. (§ 1.1368-1(f)(4))	_____	_____	_____
502) Tax on "built-in" gains - applies to prior C corporations that filed S status election subsequent to 1986. Consider the following:			
.1) Compute tax at maximum corporate rate for the net recognized gains for the taxable years (not to exceed Subchapter C taxable income as adjusted) on the disposition of assets. (§ 1374)	_____	_____	_____
.2) If S election was made after March 30, 1988, determine built- in gain carryover, if applicable.	_____	_____	_____
.3) Consider tax on capital gains.	_____	_____	_____
.4) Gasoline and special fuel credits as well as the following carryforwards from C years may be used to reduce built-in gains tax:			
(a) Net operating loss.	_____	_____	_____
(b) Capital losses.	_____	_____	_____
(c) Business credits.	_____	_____	_____
(d) Minimum tax credits.	_____	_____	_____
503) Consider tax on LIFO recapture for C corporations electing S status.	_____	_____	_____
504) Consider tax payable by the corporation from recomputing a prior year investment tax credit as a result of the early disposition of assets acquired in C corporation years.	_____	_____	_____
505) Confirm the amounts and dates of any federal, state and local estimated tax deposits for the year, prior year overpayments applied, backup withholding and extension payments.	_____	_____	_____
506) Consider federal and state estimated tax requirements and related electronic filing requirements.	_____	_____	_____
507) Determine if the corporation is eligible for tax credits such as:			
.1) Foreign tax credit. (Form 1118)	_____	_____	_____
.2) Investment tax credit (rehabilitation and transition, energy and reforestation). (Form 3468)	_____	_____	_____
.3) Credit for increasing research activities. See TRA 1997 for extension through June 30, 1998. (Form 6765)	_____	_____	_____
.4) Enhanced oil recovery credit. (Form 8830)	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Credit for producing fuels from nonconventional source.	_____	_____	_____
.6) Gasoline and special fuels credit. (Form 4136)	_____	_____	_____
.7) Low income housing credit. (Form 8586)	_____	_____	_____
.8) Disabled access credit. (Form 8826)	_____	_____	_____
.9) Qualified electric vehicle credit. (Form 8834)	_____	_____	_____
.10) Renewable electricity production credit. (Form 8835)	_____	_____	_____
.11) Credit for employer social security taxes paid on certain employee cash tips. (Form 8846) See SBJPA 1996 for changes.	_____	_____	_____
.12) Credit related to wage and health insurance costs for qualified Indian employees. (Form 8845)	_____	_____	_____
.13) Credit for contributions to certain community development corporations. (Form 8847)	_____	_____	_____
.14) Credit for alcohol used as fuel. (Form 4136)	_____	_____	_____
.15) Empowerment zone employment credit. (Form 8844)	_____	_____	_____
.16) Work Opportunity Credit for eligible employees who begin work after September 30, 1996 and before July 1, 1998 (SBJPA 1996 and TRA 1997). (Form 5884)	_____	_____	_____
.17) Credit for qualified clinical testing expenses (Orphan Drug Credit), and associated carrybacks and carryovers. (SBJPA 1996) Note permanently extended under TRA 1997. (Form 8820)	_____	_____	_____
.18) Welfare-to-work tax credit for eligible employees who begin work on or after January 1, 1998 and before May 1, 1999. (TRA 1997)	_____	_____	_____
508) If taxpayer is part of a controlled group, consider special allocation rules under §§ 1561 and 1563. Attach apportionment schedules.	_____	_____	_____
600) SHAREHOLDER INFORMATION			
601) Shareholder allocation/limitation:			
.1) Determine that items of income, deductions, credits, etc., are allocated to the shareholders on a per-share, per-day basis.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) If stock transfers occurred during the year which resulted in a termination of a shareholder's interest, consider allocations based on time of actual occurrence. Attach the affected shareholders' and corporation's statement of election. (SBJPA 1996)	_____	_____	_____
602) Shareholder distribution/basis computations:			
.1) Determine that equity increases and decreases (Schedule M) are properly segregated among:			
(a) Accumulated adjustment account.	_____	_____	_____
(b) Other adjustment account.	_____	_____	_____
(c) Shareholders undistributed PTI.	_____	_____	_____
.2) Determine that distributions exceeding the accumulated adjustment account for S corporations with earnings and profits from C years are reported (Form 1099-DIV) to shareholders as dividends to the extent of accumulated earnings and profits. Note that current year net reductions are disregarded in this computation. (SBJPA 1996)	_____	_____	_____
.3) Determine that gain is recognized and allocated to each shareholder for distribution of appreciated property.	_____	_____	_____
603) Consider Shareholder Basis Practice Guide.	_____	_____	_____
700) K-1 INFORMATION			
701) Determine that proper reporting and separate stating have been provided for all appropriate items such as:			
.1) Ordinary trade or business activities.	_____	_____	_____
.2) Rental activities.	_____	_____	_____
.3) Portfolio income and related deductions.	_____	_____	_____
.4) Gains and losses, dates of dispositions, respective holding periods and type of assets sold. (TRA 1997)	_____	_____	_____
.5) Passive activity data (note elections). See Passive Activity Checklist.	_____	_____	_____
.6) Self-charged interest. Note Prop. Reg. § 1.469-7 allowing for possible recharacterization of interest income. (See Passive Activity Checklist.)	_____	_____	_____
.7) All items that affect shareholder basis calculations (e.g., nondeductible items and nontaxable income).	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.8) Charitable contributions including copy of Form 8283 when required.	_____	_____	_____
.9) Shareholder loan repayments.	_____	_____	_____
.10) Distributions.	_____	_____	_____
.11) At risk information.	_____	_____	_____
.12) Credit information.	_____	_____	_____
.13) Interest incurred in the production of property that may have to be capitalized at the shareholder level (Notice 88-99).	_____	_____	_____
.14) Other passthrough items (e.g., intangible drilling costs, depletion).	_____	_____	_____
.15) Tax shelter registration number and Form 8271 when required.	_____	_____	_____
.16) State allocation of income, deductions and credits.	_____	_____	_____
.17) Unrelated business taxable income.	_____	_____	_____
702) Segregate tax preference and adjustment items and report on the appropriate lines.	_____	_____	_____
703) Prepare schedules that reflect information to allow each shareholder to compute credit recapture.	_____	_____	_____
704) Determine that information relating to interest expense on debt-financed distributions to shareholders has been provided (Notice 89-35).	_____	_____	_____
800) OTHER REQUIREMENTS			
801) Consider elections and statements such as:			
.1) Election to amortize organization expense.	_____	_____	_____
.2) Election to amortize business start-up costs.	_____	_____	_____
.3) Election to expense intangible drilling costs.	_____	_____	_____
.4) Cash vs. accrual method.	_____	_____	_____
.5) Section 351, statement of transferred assets.	_____	_____	_____
.6) Method for valuation of inventory.	_____	_____	_____
.7) Research and experimental cost election.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.8) Exception from economic performance for recurring items. Under final regulations, the election for any item(s) incurred for the first time is made by accounting for the item(s) under the recurring method on a timely filed tax return.	_____	_____	_____
.9) If a distribution or technical termination has occurred in a partnership consider both the new allocation of basis rules under § 732(c) (TRA 1997) and making a § 732(d) election. Note exceptions for post May 9, 1997 technical terminations. Reg. 1.708-1	_____	_____	_____
.10) If this is the first year the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception. (Rev. Proc. 92-28).	_____	_____	_____
.11) Consider the option to treat current year qualifying disaster losses on appropriate preceding year tax return.	_____	_____	_____
.12) Change of accounting method application/approval.	_____	_____	_____
802) Determine if expenditures were incurred that are eligible for the Disabled Access Credit (Form 8826). If the taxpayer does not qualify for the credit or has expenditures in excess of the credit, consider making a § 190 election to expense the cost.	_____	_____	_____
803) Cross reference the following items:			
.1) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____
.2) Schedule M beginning equity accounts to prior year's ending balance.	_____	_____	_____
.3) Detail listings of Schedule L beginning balances to prior year's detail listings of ending balances.	_____	_____	_____
804) If the corporation was a party to an "applicable asset acquisition" (transfer of assets that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met. (Form 8594)	_____	_____	_____
805) Determine that book/tax accounting method differences related to Schedule M are documented in the workpaper files.	_____	_____	_____
806) Consider § 6662 accuracy-related penalty. If this penalty could result from any income, deduction loss or credit item which causes a substantial change in the shareholder's return and causes the preparer to rise to the level of preparer of the shareholder's return:			
.1) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275 or 8275R).	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Consider advising the taxpayer, in writing, of the penalty.	_____	_____	_____
807) Prepare state and local tax returns (see Nexus Practice Guide). Consider:			
.1) Recognition of "S" status.	_____	_____	_____
.2) State modification requirements.	_____	_____	_____
.3) State withholding requirements on income allocated to non-resident shareholders.	_____	_____	_____
.4) Information to allow shareholder to file the necessary state tax returns.	_____	_____	_____
.5) Composite filing on behalf of nonresident shareholders.	_____	_____	_____
.6) Compile apportionment data for multistate taxpayer.	_____	_____	_____
808) Attach extension requests.	_____	_____	_____
809) Complete and attach Form 5452 to report nondividend distribution (i.e., distributions in excess of earnings and profit).	_____	_____	_____
810) Inquire if the corporate minute book has been updated.	_____	_____	_____
811) Inquire if the required 5500 series forms have been filed for retirement plans covered by this period.	_____	_____	_____
812) Inquire if the required 5500 series forms have been filed for cafeteria plans and welfare benefit plans (e.g., medical benefits, life insurance, disability or death benefit plans that have more than 100 participants).	_____	_____	_____
813) Advise the S corporation that any unpaid retirement plan contribution must be made before the due date of the return including extension.	_____	_____	_____
814) Information returns:			
.1) Inquire whether the S corporation has filed all required information returns (1098, 1099 and 1042 series) and whether the value of the personal use of employer property, expense reimbursements under "unaccountable plans," and 401(k) deferred compensation information has been included in employees' W-2s. Note new reporting requirements on certain payments made to attorneys. (TRA 1997)	_____	_____	_____
.2) Inquire if the taxpayer has complied with magnetic media filing requirements for 1099s and W-2s.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Inquire if additional items subject to employer FICA such as 401(k) deferrals, employer provided excess group term life insurance, all cash tips, etc., have been properly reported.	_____	_____	_____
.4) Determine that reimbursement of employee moving expenses and tuition and related expenses are properly reported. (TRA 1997)	_____	_____	_____
.5) Inquire whether club dues, spouse travel, etc., is treated as compensation and included on employee's W-2.	_____	_____	_____
.6) Consider filing information returns relating to foreign partnerships and corporations. (TRA 1997)	_____	_____	_____
815) Inquire as to whether employment taxes were timely deposited. (EFTPS)	_____	_____	_____
816) Compare net income or loss to projections.	_____	_____	_____
817) Determine that related party transactions are properly reported on all available returns.	_____	_____	_____
818) Consider informing client of requirement to file Form 8300 for certain payments received exceeding \$10,000.	_____	_____	_____
819) Determine if Form TD F 90-22.1 is needed to report foreign financial accounts.	_____	_____	_____
820) If the S corporation is a partner in a partnership, consider § 465 at risk and/or § 704(d) basis rules.	_____	_____	_____
821) If the corporation sold partnership interests during the year, determine:			
.1) That appropriate information was given to the partnership to enable it to prepare Form 8308.	_____	_____	_____
.2) That the required statement under Reg. § 1.751-1(a)(3) is attached if the partnership had § 751 assets.	_____	_____	_____
822) If the corporation acquired partnership interests during the year determine that the appropriate information was given to the partnership. Prop. Reg. § 209682-94	_____	_____	_____
823) Note tax planning/additional service suggestions.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
1998 - FORM 1120S

COMMENTS OR

DONE N/A EXPLANATION

COMMENTS OR EXPLANATIONS

MINI-CHECKLIST
PARTNERSHIP RETURN OF INCOME
1998 - FORM 1065

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION			INCOME		
1. Review for changes in the partnership's and partners' names and addresses, FYE, business code.	<input type="checkbox"/>	<input type="checkbox"/>	1. Compare sources of portfolio income with prior year.	<input type="checkbox"/>	<input type="checkbox"/>
2. Review prior year returns, workpapers, correspondence, audit results and amendments to the partnership agreement.	<input type="checkbox"/>	<input type="checkbox"/>	2. Include only trade or business income on page 1, Form 1065.	<input type="checkbox"/>	<input type="checkbox"/>
3. Consider signed engagement letter.	<input type="checkbox"/>	<input type="checkbox"/>	3. Calculate gains, losses and recaptures on dispositions of property.	<input type="checkbox"/>	<input type="checkbox"/>
4. Determine if the partnership is a limited partnership.	<input type="checkbox"/>	<input type="checkbox"/>	4. Consider the following:		
5. Review pro forma/organizer for accuracy.	<input type="checkbox"/>	<input type="checkbox"/>	Installment sales and related interest charge on deferred tax	<input type="checkbox"/>	<input type="checkbox"/>
6. Determine if the partnership agreement complies with the 704(b) regulations. (See § 704(b) tax practice guide).	<input type="checkbox"/>	<input type="checkbox"/>	Timing differences	<input type="checkbox"/>	<input type="checkbox"/>
7. Consider below-market-rate loan rules.	<input type="checkbox"/>	<input type="checkbox"/>	Wash sales	<input type="checkbox"/>	<input type="checkbox"/>
8. Determine if there has been a technical termination of the partnership.	<input type="checkbox"/>	<input type="checkbox"/>	Ordinary income on market discount bonds and deferral of related interest expense	<input type="checkbox"/>	<input type="checkbox"/>
9. Determine if the partnership is on the "required" year end.	<input type="checkbox"/>	<input type="checkbox"/>	Sales or exchanges with a partner	<input type="checkbox"/>	<input type="checkbox"/>
10. Determine if the partnership is an "electing large partnership".	<input type="checkbox"/>	<input type="checkbox"/>	Worthless securities	<input type="checkbox"/>	<input type="checkbox"/>
11. Determine if the partnership is required to file by magnetic media.	<input type="checkbox"/>	<input type="checkbox"/>	Like-kind exchanges	<input type="checkbox"/>	<input type="checkbox"/>
12. Determine if there were partnership ownership changes.	<input type="checkbox"/>	<input type="checkbox"/>	DEDUCTIONS		
Consider § 754 election.	<input type="checkbox"/>	<input type="checkbox"/>	1. Consider the uniform capitalization rules.	<input type="checkbox"/>	<input type="checkbox"/>
Consider Form 8308.	<input type="checkbox"/>	<input type="checkbox"/>	2. Determine if Form 8283 is required for non-cash charitable contributions.	<input type="checkbox"/>	<input type="checkbox"/>
13. Determine if § 704(c) regulations have been applied to contributions of property by a partner.	<input type="checkbox"/>	<input type="checkbox"/>	3. Determine if there were guaranteed payments to partners.	<input type="checkbox"/>	<input type="checkbox"/>
14. Provide UBTI data to tax exempt partners.	<input type="checkbox"/>	<input type="checkbox"/>	4. Inquire if travel and entertainment expenses are substantiated by adequate records.	<input type="checkbox"/>	<input type="checkbox"/>
15. Review financial statements and footnotes for relevant information.	<input type="checkbox"/>	<input type="checkbox"/>	5. Consider limitations on deductibility of:		
16. Consider tax credits. (SBJPA 1996 and TRA 1997)	<input type="checkbox"/>	<input type="checkbox"/>	Club dues	<input type="checkbox"/>	<input type="checkbox"/>
17. Consider debt discharge and the exceptions to recognition.	<input type="checkbox"/>	<input type="checkbox"/>	Lobbying expenses/association dues	<input type="checkbox"/>	<input type="checkbox"/>
18. Consider filing power of attorney.	<input type="checkbox"/>	<input type="checkbox"/>	6. Limit meals and entertainment to allowable percentage.	<input type="checkbox"/>	<input type="checkbox"/>
			7. Allocate interest expense among expenditures and/or distributions.	<input type="checkbox"/>	<input type="checkbox"/>
			8. Review amount and timeliness of retirement plan contributions.	<input type="checkbox"/>	<input type="checkbox"/>
			9. Determine if specific chargeoff method is used for bad debts.	<input type="checkbox"/>	<input type="checkbox"/>
			10. Determine applicability of 2½ month deferred comp rule for nonpartner employees and independent contractors.	<input type="checkbox"/>	<input type="checkbox"/>

MINI-CHECKLIST

PARTNERSHIP RETURN OF INCOME

1998 - FORM 1065

Done N/A

Done N/A

DEPRECIATION/AMORTIZATION

- | | | | | | |
|--|--------------------------|--------------------------|--|--------------------------|--------------------------|
| | | | | | |
| 1. Consider the following: | | | Ratable accrual of real property taxes (first year only) | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | Step up in basis. | <input type="checkbox"/> | <input type="checkbox"/> |
| | | | Treatment as a large partnership. | <input type="checkbox"/> | <input type="checkbox"/> |
| § 179 election | <input type="checkbox"/> | <input type="checkbox"/> | 3. Determine if the partnership was a party to "applicable asset acquisition" (Form 8594). | <input type="checkbox"/> | <input type="checkbox"/> |
| Methods and lives | <input type="checkbox"/> | <input type="checkbox"/> | 4. Inquire if all information returns filed. | <input type="checkbox"/> | <input type="checkbox"/> |
| Listed property | <input type="checkbox"/> | <input type="checkbox"/> | 5. Consider § 6662 accuracy-related penalty. | <input type="checkbox"/> | <input type="checkbox"/> |
| Amortization of goodwill and other intangibles | <input type="checkbox"/> | <input type="checkbox"/> | 6. Determine if there was any § 751 gain (unrealized receivables) to existing partners due to admission of new partners. | <input type="checkbox"/> | <input type="checkbox"/> |
| Capitalization of leased property | <input type="checkbox"/> | <input type="checkbox"/> | 7. Compare net income or loss to projections. | <input type="checkbox"/> | <input type="checkbox"/> |

2. Compute AMT and ACE depreciation. ☐ ☐

PARTNER DATA - SCHEDULE K-1

- | | | | | | |
|--|--------------------------|--------------------------|--|--------------------------|--------------------------|
| | | | | | |
| 1. Complete the analysis of distributive items at the bottom of Schedule K. | <input type="checkbox"/> | <input type="checkbox"/> | 8. Prepare state and local tax returns and report necessary partner information. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Consider the at risk rules. | <input type="checkbox"/> | <input type="checkbox"/> | 9. Attach extension requests. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Report pre-1987 installment sale as passive. (See Passive Activity Checklist). | <input type="checkbox"/> | <input type="checkbox"/> | 10. Note tax planning/additional service suggestions. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Reconcile partners capital per Schedule L to Schedule M-2. | <input type="checkbox"/> | <input type="checkbox"/> | | | |
| 5. Complete each partner's reconciliation of capital. | <input type="checkbox"/> | <input type="checkbox"/> | | | |
| 6. Allocate partner debt pursuant to § 752. | <input type="checkbox"/> | <input type="checkbox"/> | | | |
| 7. Ensure the partnership and K-1s report results on an activity by activity basis. | <input type="checkbox"/> | <input type="checkbox"/> | | | |
| 8. Allocate each item on Schedule K to the partners per the partnership agreement and § 704(b). (See § 704(b) tax practice guide). | <input type="checkbox"/> | <input type="checkbox"/> | | | |
| 9. Allocate losses to deceased partners pursuant to § 706 (TRA 1997) | <input type="checkbox"/> | <input type="checkbox"/> | | | |
| 10. Provide information for all items that affect partner's tax liability. | <input type="checkbox"/> | <input type="checkbox"/> | | | |
| 11. Include tax shelter registration number. | <input type="checkbox"/> | <input type="checkbox"/> | | | |

OTHER REQUIREMENTS

- | | | |
|---|--------------------------|--------------------------|
| 1. Compute net earnings from self-employment. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Consider the following elections and statements such as: | | |
| Amortize organization expense | <input type="checkbox"/> | <input type="checkbox"/> |
| Cash vs. accrual | <input type="checkbox"/> | <input type="checkbox"/> |
| Expense intangible drilling costs | <input type="checkbox"/> | <input type="checkbox"/> |
| Amortize business startup costs | <input type="checkbox"/> | <input type="checkbox"/> |
| Method for valuation of inventory | <input type="checkbox"/> | <input type="checkbox"/> |
| Change in accounting method application/approval | <input type="checkbox"/> | <input type="checkbox"/> |
| Research and experimental costs | <input type="checkbox"/> | <input type="checkbox"/> |
| Exception from economic performance for recurring items (first year only) | <input type="checkbox"/> | <input type="checkbox"/> |

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review and update the partnership's and partners' names, addresses, fiscal year, business code, identification number, date business started, and IRS and other tax processing centers.	_____	_____	_____
102) Review permanent file, prior year returns, work papers and correspondence files.	_____	_____	_____
103) Consider signed engagement letter.	_____	_____	_____
104) Identify the name, address and identifying number of the "Tax Matters" partner.	_____	_____	_____
105) Obtain information concerning IRS, state tax audits and/or correspondence.	_____	_____	_____
106) Verify that a copy of the partnership agreement and all amendments are in the permanent file.	_____	_____	_____
107) If the taxpayer is an LLC, document the status as a partnership.	_____	_____	_____
108) Determine if the partnership is a limited partnership.	_____	_____	_____
109) Review computer-generated pro forma/organizer for accuracy.	_____	_____	_____
110) If the partnership has a passive activity, note that the activity definitions in the regulations apply to partnerships (see Passive Activity Checklist).	_____	_____	_____
111) Determine that the partnership agreement complies with the § 704 regulations. (See § 704(b) Tax Practice Guide.)	_____	_____	_____
112) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
113) If the partnership is using an improper accounting method, consider filing an application for a change in accounting method.	_____	_____	_____
114) Consider economic performance requirements and recurring item exceptions.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
115) Inquire whether the partnership has made or received any below-market-rate term or demand loans. If so, determine imputed interest consequences.	_____	_____	_____
116) Review for adequate stated interest on all new or modified debt instruments.	_____	_____	_____
117) Determine if there has been any change in the partnership's ownership and/or a technical termination during the year. If there was a technical termination, consider the need for a short period return.	_____	_____	_____
118) If there were any sales or exchanges of partnership interests, or partner deaths during the current year, consider whether a § 754 election has been, or should be made.	_____	_____	_____
119) Determine if § 704(c) regulations have been applied to contributions of property by partners.	_____	_____	_____
120) Consider the consequences if the partnership has a year other than that which is "required."	_____	_____	_____
121) Determine if the partnership is an "electing large partnership". If so,			
.1) K-1's must be furnished to all partners by March 15 (TRA 1997).	_____	_____	_____
.2) Simplified reporting rules will apply.	_____	_____	_____
122) Determine if the partnership has more than 100 partners. If so, the partnership return, including K-1's, must be filed with the IRS by magnetic media (TRA 1997).	_____	_____	_____
123) Determine if the partnership had any discharge of indebtedness income. If so, consider the exceptions to recognition.	_____	_____	_____
124) Provide UBTI information to tax-exempt partners.	_____	_____	_____
125) Review financial statements and footnotes for relevant information.	_____	_____	_____
126) Consider availability of tax credits. (SBJPA 1996 and TRA 1997)	_____	_____	_____
127) Consider filing power of attorney.	_____	_____	_____
200) INCOME			
201) Compare sources and amounts of portfolio income with prior year.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
202) Determine that only trade or business (e.g., not portfolio or rental) income is reported on Page 1 of Form 1065.	_____	_____	_____
203) Review dispositions of property for holding period and federal, state, AMT and ACE tax bases, non-recognition and recaptures. (TRA 1997)	_____	_____	_____
204) Consider the following:			
.1) Installment sales and related interest charge on deferred tax.	_____	_____	_____
.2) Timing differences.	_____	_____	_____
.3) Wash sales.	_____	_____	_____
.4) Sales or exchanges between the partnership and a partner, or a related party.	_____	_____	_____
.5) Income inclusion for leased property.	_____	_____	_____
.6) Worthless securities.	_____	_____	_____
.7) Like-kind exchanges.	_____	_____	_____
.8) Rules for involuntary conversions of post-1994 Presidentially-declared disasters (SBJPA 1996).	_____	_____	_____
.9) Gains on constructive sales of appreciated financial positions. (TRA 1997)	_____	_____	_____
205) Consider mark to market rules for "dealers in securities" (§ 475).	_____	_____	_____
206) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
300) DEDUCTIONS			
301) Consider the uniform capitalization rules.	_____	_____	_____
302) Inquire if adequate contemporaneous documentation was obtained for charitable contributions of \$250 or more.	_____	_____	_____
303) If noncash charitable contributions exceed \$500, attach Form 8283.	_____	_____	_____
304) Determine that all guaranteed payments have been deducted in computing ordinary income, or have been capitalized as required.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
305) Inquire whether the partnership can substantiate by adequate records, as required under IRC § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel, conventions.	_____	_____	_____
306) Consider limitations on deductibility of:			
.1) Club dues	_____	_____	_____
.2) Lobbying expenses/association dues.	_____	_____	_____
307) Limit meals and entertainment to allowable percentage. Consider exceptions.	_____	_____	_____
308) Verify that the proper allocations have been made dividing interest expense among expenditures and/or distributions.	_____	_____	_____
309) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
310) Determine that retirement plan contributions are made timely and within allowable limits.	_____	_____	_____
311) Determine that the partnership has not deducted interest or expenses accrued to a partner or a related party unless it is includible in the income of the partner or related party (§ 267).	_____	_____	_____
312) Determine that expenses (including interest) allocable to portfolio income have not been deducted on Page 1, Form 1065.	_____	_____	_____
313) Determine that the specific write-off method is used for bad debts.	_____	_____	_____
314) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) Consider all depreciation requirements and options including:			
.1) § 179 election. (Note new allowable amounts (SBJPA 1996)).	_____	_____	_____
.2) Consider 36-month depreciation rules for software.	_____	_____	_____
.3) Methods and lives.	_____	_____	_____
.4) Determine if leased property should be capitalized.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Requirements relating to listed property.	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
403) Consider AMT and ACE depreciation.	_____	_____	_____
500) PARTNER DATA - SCHEDULE K-1			
501) Complete the analysis of distributive items at the bottom of Schedule K.	_____	_____	_____
502) Consider the at risk rules.	_____	_____	_____
503) Consider whether income from a pre-1987 installment sale should be considered passive income.	_____	_____	_____
504) Verify that the beginning and ending total partners' capital figures on Schedule L agree with the reconciliation of partners' capital accounts—Schedule M-2.	_____	_____	_____
505) Complete each partner's reconciliation of capital. Make sure each column total agrees to the corresponding line on Schedule M-2.	_____	_____	_____
506) Determine the allocation of the partnership's recourse, nonrecourse and qualified nonrecourse liabilities pursuant to § 752 and enter separately on each partner's Schedule K-1.	_____	_____	_____
507) Ensure that the partnership and K-1s report results on an activity by activity basis.	_____	_____	_____
508) Distribute each item on Schedule K among the K-1s in accordance with provisions of the partnership agreement, or in accordance with § 704(b) if the partnership agreement is silent on § 704(b). (See § 704(b) Tax Practice Guide).	_____	_____	_____
509) Determine that allocations for deceased partners are consistent with § 706. Note that a partnership's taxable year now closes with respect to a deceased partner (TRA 1997).	_____	_____	_____
510) Determine whether the partnership was required to register as a tax shelter. Place the registration number on each K-1.	_____	_____	_____
511) Determine that proper reporting has been provided for all items on Schedule K-1 that affect partners' tax liability.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
600) OTHER REQUIREMENTS			
601) Compute net earnings from self-employment.	_____	_____	_____
602) Consider elections and statements such as:			
.1) Amortization of organization expenses.	_____	_____	_____
.2) Cash vs. accrual method.	_____	_____	_____
.3) Election to expense intangible drilling costs.	_____	_____	_____
.4) Amortization of business start-up costs.	_____	_____	_____
.5) Method of valuation of inventory.	_____	_____	_____
.6) Change in accounting method application/approval.	_____	_____	_____
.7) Research and experimental costs.	_____	_____	_____
.8) Exception from economic performance for recurring items (first year only).	_____	_____	_____
.9) Ratable accrual of real property taxes (first year only).	_____	_____	_____
.10) Election to be treated as a partnership.	_____	_____	_____
.11) Election to step up basis (§ 754).	_____	_____	_____
.12) Election to be treated as a large partnership.	_____	_____	_____
603) If the partnership is a party to an "applicable asset acquisition," determine that the reporting requirements have been met (Form 8594).	_____	_____	_____
604) Consider risk of § 6662 accuracy-related penalty.	_____	_____	_____
605) If a partnership interest was sold during the year, attach Form 8308 (if required), and send a copy to the transferor and transferee.	_____	_____	_____
606) If a new partner was admitted, determine if existing partners realized ordinary income due to a reduction in their share of unrealized receivables.	_____	_____	_____
607) Compare net income or loss to projections.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
608) Review prior year's return Schedule M-1, for items which may have an effect upon or require similar treatment in the current year.	_____	_____	_____
609) Reconcile income and expenses per books with return.	_____	_____	_____
610) Prepare state and local tax returns (see Nexus Guide). Furnish necessary information to partners.	_____	_____	_____
611) Attach extension requests.	_____	_____	_____
612) Determine that related party transactions are properly reported on all available returns.	_____	_____	_____
613) Inquire if information returns (1098 & 1099 series) have been filed.	_____	_____	_____
614) Inquire if employment taxes were timely deposited. (EFTPS)	_____	_____	_____
615) Inquire if employee benefit plans have been reviewed to determine if they are in compliance due to changing partnership circumstances and law changes.	_____	_____	_____
616) Note tax planning/additional service suggestions.	_____	_____	_____

COMMENTS OR EXPLANATIONS

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review the partnership's and partners' names, addresses, fiscal year, business code, identification number, date business started and IRS and other tax processing centers. Note changes.	_____	_____	_____
102) Review permanent file, prior year returns, memos, workpapers, and correspondence files.	_____	_____	_____
103) Consider signed engagement letter.	_____	_____	_____
104) Identify the name, address and identifying number of the Tax Matters Partner if the partnership is subject to the consolidated audit procedures of §§ 6221-6233. (Note final regulation § 301.6231(a)(7)-2 which provides guidance on determining the TMP for LLC's).	_____	_____	_____
105) If the partnership has been examined by the Internal Revenue Service, state or local taxing authority:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine if the agent's adjustments have been entered in the partnership's records and appropriate carry forward workpapers.	_____	_____	_____
.3) If the agent's adjustments affect income tax returns of years other than those audited, or the corresponding federal and state returns for the same year, consider filing amended returns.	_____	_____	_____
.4) Inquire whether the Tax Matters Partner has informed the partners of an examination by the IRS or state agency.	_____	_____	_____
106) Obtain correspondence with the IRS or state taxing authority. Consider impact.	_____	_____	_____
107) Verify that a copy of the partnership agreement and all amendments are in the permanent file, or document in the permanent file why this is thought to be a partnership for federal and state income tax purposes.	_____	_____	_____
.1) Consider final "check the box" regulation § 301.7701-1 and newly issued proposed regulations.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Note new proposed regulation covering the requirement to file partnership returns. (Prop. Reg. 1.6031(a)-1).	_____	_____	_____
108) If the taxpayer is a limited liability company, obtain a copy of the operating agreement and document the status as a partnership.	_____	_____	_____
109) Determine if the partnership is a limited partnership.	_____	_____	_____
110) Review and update, schedules for federal and state carryover items such as:			
.1) Prior year deferred deductions.	_____	_____	_____
.2) Installment sales. Consider applicable tax rates for components of gain.	_____	_____	_____
.3) Changes in accounting methods requiring § 481 adjustments.	_____	_____	_____
.4) Suspended losses due to at risk limitations.	_____	_____	_____
.5) Partnership basis.	_____	_____	_____
111) Review computer-generated pro forma/organizer for accuracy.	_____	_____	_____
112) Determine if there were passive activities. (See Passive Activity Checklist). Note that partnerships must group their activities in accordance with the regulations.	_____	_____	_____
113) Determine if the partnership agreement complies with the § 704 regulations. (See § 704(b) Tax Practice Guide).	_____	_____	_____
.1) If there is nonrecourse debt:			
(a) Consider the safe harbor provisions that if met, ensure that the allocations of deductions attributable to nonrecourse debt will be deemed to be in accordance with the partner's interest in the partnership. (Reg. § 1.704-2(e)).	_____	_____	_____
(b) Determine whether a minimum gain calculation may be necessary in order to ensure proper allocation of deductions attributable to the nonrecourse debt.	_____	_____	_____
.2) Determine if there were any partner or related party loans or guarantees. If so, consider requirement to specially allocate losses to that partner. (Reg. § 1.704-2(i)).	_____	_____	_____
114) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
115) Consider economic performance requirement and recurring item exceptions.	_____	_____	_____
116) If the partnership is on the cash basis, determine if it must be on the accrual basis due to:			
.1) Classification as a tax shelter under § 461(i)(3).	_____	_____	_____
.2) A C corporation partner. Consider exceptions which allow partnerships with corporate partners to be on the cash basis:			
.a) \$5 million gross receipts test	_____	_____	_____
.b) "function exception"	_____	_____	_____
.3) Inventory	_____	_____	_____
117) Inquire whether the partnership has made or received below-market-rate term or demand loans. Determine imputed interest consequences.	_____	_____	_____
118) Review for adequate stated interest on all new or modified debt instruments:			
.1) Determine whether OID or the unstated interest rules require restatement of note interest and principal.	_____	_____	_____
.2) Consider election for purchased discount rule § 1278.	_____	_____	_____
119) Review for proper reporting of interest recognition in accordance with Regs. §§ 1.483-4 and 1.1274-5 for debt instruments providing contingent payments.	_____	_____	_____
120) Determine if there has been a change in the partnership's ownership and/or a technical termination during the year. Note that "electing large partnerships" do not terminate as result of a transfer of 50% or more of the partnership interests.	_____	_____	_____
121) If a technical termination of the partnership occurred, consider the effect on partnership elections, the basis of partnership property, depreciation methods, potential credit recapture, ability to deduct unamortized costs and the need to file short period returns (§ 708).	_____	_____	_____
122) If there has been a distribution of appreciated partnership property (either an actual distribution or a deemed distribution as a result of a technical termination of the partnership), consider both the new allocation of basis rules under § 732(c) (TRA 1997), § 751(c) Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 1998), (and Prop. Reg. 1.732-1(c)) and the impact of the mandatory basis			

PARTNERSHIP RETURN OF INCOME CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
adjustment rule under § 732(d). (Note that the final regulations under § 708 provide that technical terminations occurring after May 9, 1997 do not result in deemed distributions).	<hr/>	<hr/>	<hr/>
123) If there has been a distribution of partnership property, determine whether § 737 requires any partner to recognize gain. Note seven year test in § 737(b)(1) (TRA 1997). If so, the partnership's adjusted basis in the contributed property is adjusted accordingly. Note final Reg. § 1.731-2.	<hr/>	<hr/>	<hr/>
124) If there were any sales or exchanges of partnership interests or partner deaths during the current year, determine if a § 754 election has been or should be made and attach required information if a current year election is being made. If made, an adjustment to the basis of partnership property is mandatory.	<hr/>	<hr/>	<hr/>
.1) Note new proposed regulations covering how basis adjustments are to be allocated (Reg. - 209682-94).	<hr/>	<hr/>	<hr/>
.2) Consider statement of adjustments for § 743 basis adjustments (Reg. - 209682.94).	<hr/>	<hr/>	<hr/>
.3) Note that if the partnership is a partner in another partnership, a § 754 election is necessary at both tiers.	<hr/>	<hr/>	<hr/>
125) Determine whether property has been contributed by a partner after March 31, 1984, and if so, that <u>all</u> items of income, gain, loss and deductions are shared among the partners to take into account the variation between the basis of the property to the partnership and its value.	<hr/>	<hr/>	<hr/>
126) If the partnership has selected an allowable fiscal tax year other than the "required year," determine that Form 8716 has been timely filed, and that "required payments" have been made. Note that a copy of Form 8716 must be attached to Form 1065 for the first taxable year for which the election is made.	<hr/>	<hr/>	<hr/>
127) Consider whether changes in partners' taxable years modify the partnership's "required year." Consider the need for short period returns.	<hr/>	<hr/>	<hr/>
128) If the return is for a short-year, review the related requirements, and note the due date.	<hr/>	<hr/>	<hr/>
129) Determine if the partnership is a publicly traded partnership. If it is a pre-1987 publicly-traded partnership, determine whether an election to continue status as a partnership was made. (TRA 1997 and Notice 98-3).	<hr/>	<hr/>	<hr/>

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
130) Determine if the partnership is an "electing large partnership". If so, K-1's must be furnished to all partners by March 15. (TRA 1997)	_____	_____	_____
131) Determine if the partnership has more than 100 partners. If so, the partnership return, including K-1's, must be filed with the IRS by magnetic media. (TRA 1997)	_____	_____	_____
132) Consider simplified reporting for electing large partnerships. (TRA 1997)	_____	_____	_____
.1) Qualifying partnerships with 100 or more partners may elect to be treated as "electing large partnerships."	_____	_____	_____
.2) Taxable income is generally computed in the same manner as that of an individual, with certain modifications (such as miscellaneous itemized deductions). In addition, the following items are separately stated:			
(a) taxable income or loss from passive activities	_____	_____	_____
(b) taxable income or loss from other activities (e.g., portfolio income or loss)	_____	_____	_____
(c) not capital gain or loss allocable to passive loss limitation activities	_____	_____	_____
(d) net capital gain or loss allocable to other partnership activities	_____	_____	_____
(e) tax exempt interest	_____	_____	_____
(f) net alternative minimum tax adjustment separately computed for passive loss limitation activities and other activities	_____	_____	_____
(g) general credits	_____	_____	_____
(h) low income housing tax credit	_____	_____	_____
(i) rehabilitation credit	_____	_____	_____
(j) foreign income taxes	_____	_____	_____
(k) discharge of indebtedness income	_____	_____	_____
(l) credit for producing fuel from a nonconventional source	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Limited partners treat all passive activities undertaken by an electing large partnership as a single activity.	_____	_____	_____
.4) Credit recapture is computed at the partnership level.	_____	_____	_____
.5) Oil and gas partnerships compute depletion at the partnership level. Certain partners are treated as "disqualified persons" and special reporting rules apply.	_____	_____	_____
133) Determine if the partnership has restructured debt.	_____	_____	_____
If so:			
.1) Review for possible discharge of indebtedness income.	_____	_____	_____
.a) Determine if there has been a "significant modification" (Reg. § 1.1001-1(a)) of the old debt which would constitute a taxable exchange of old debt for new debt. (See also, <u>Cottage Savings Ass'n v. Commissioner</u> , 111 S. Ct. 1503 (1991) and final Reg. § 1.1001-3).	_____	_____	_____
.b) If there has been a "significant modification," review the Original Issue Discount (OID) rules to calculate possible discharge of indebtedness income. Compare the issue price of the old debt to that of the new debt (after taking into account any adjustment to principal (if needed) due to the new debt's failure to meet the Applicable Federal Rate (AFR) for interest). Note regulations under § 1274.	_____	_____	_____
.2) If the partnership has discharge of indebtedness income, consider the possible exceptions to inclusion in income including:			
.a) § 108(a). Note that these tests are made at the partner level, not at the partnership level. (§ 108(d)(6)).	_____	_____	_____
.i) If the exclusion is applicable consider the tax attribute reduction rules in § 108(b) and providing partners with information to complete Form 982.	_____	_____	_____
.ii) Consider advising the partners of an ability to make a § 1017 election to reduce the basis of assets held by the partners. Note that this could require a stepdown in the depreciable assets of the partnership. (Form 982). (See new amendments to proposed amendment to Reg. § 1.1017-1.)	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.iii) Note that the qualified real property business indebtedness exception does not apply to C corporations.	_____	_____	_____
.b) Qualified real property business indebtedness (§ 108(c)).	_____	_____	_____
.c) Purchase money debt. (§ 108(e)(5)). Note that the IRS has waived the bankruptcy or insolvency restrictions on the use of § 108(e)(5) by partnerships (Rev. Proc. 92-92).	_____	_____	_____
.d) If the debt is nonrecourse, consider the possible application of the "freeing of assets" theory.	_____	_____	_____
.3) Determine if the new debt is qualified nonrecourse indebtedness.	_____	_____	_____
134) Determine the reporting requirements if the partnership has any tax exempt partners. (§ 6031(d)).	_____	_____	_____
135) Determine if the partnership is a family partnership. (§ 704(e))	_____	_____	_____
136) Review financial statements and footnotes for relevant information.	_____	_____	_____
137) Determine if the partnership is eligible for tax credits such as:			
.1) Foreign tax credit. (Form 1118)	_____	_____	_____
.2) Investment tax credit (rehabilitation and transition, energy and reforestation). (Form 3468)	_____	_____	_____
.3) Credit for increasing research activities. (See TRA 1997 for extension through June 30, 1998.) (Form 6765)	_____	_____	_____
.4) Enhanced oil recovery credit. (Form 8830)	_____	_____	_____
.5) Credit for producing fuels from nonconventional source.	_____	_____	_____
.6) Gasoline and special fuels credit. (Form 4136)	_____	_____	_____
.7) Low income housing credit. (Form 8586)	_____	_____	_____
.8) Disabled access credit. (Form 8826)	_____	_____	_____
.9) Qualified electric vehicle credit. (Form 8834)	_____	_____	_____
.10) Renewable electricity production credit. (Form 8835)	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.11) Credit for employer social security taxes paid on certain employee cash tips. See SBJPA 1996 for changes. (Form 8846)	<hr/>	<hr/>	<hr/>
.12) Credit related to wage and health insurance costs for qualified Indian employees. (Form 8845)	<hr/>	<hr/>	<hr/>
.13) Credit for contributions to certain community development corporations. (Form 8847)	<hr/>	<hr/>	<hr/>
.14) Credit for alcohol used as a fuel. (Form 4136)	<hr/>	<hr/>	<hr/>
.15) Empowerment zone employment credit. (Form 8844)	<hr/>	<hr/>	<hr/>
.16) Work Opportunity Credit for eligible employees who begin work after September 30, 1996 and before July 1, 1998. (TRA 1997). (Form 5994)	<hr/>	<hr/>	<hr/>
.17) Credit for qualified clinical testing expenses (Orphan Drug Credit) and associated carrybacks and carryovers. (SBJPA 1996). Note permanently extended under TRA 1997. (Form 8820)	<hr/>	<hr/>	<hr/>
.18) Welfare-to-work credit for eligible employees who begin work on or after January 1, 1998 and before May 1, 1999 (TRA 1997).	<hr/>	<hr/>	<hr/>
138) Inquire if foreign financial accounts exist (see Form TD F 90-22.1).	<hr/>	<hr/>	<hr/>
139) Determine if the partnership (SBJPA 1996):			
.1) Created a foreign trust.	<hr/>	<hr/>	<hr/>
.2) Transferred property to a foreign trust.	<hr/>	<hr/>	<hr/>
.3) Received distributions, directly or indirectly, from a foreign trust (§ 6048).	<hr/>	<hr/>	<hr/>
.4) Received loans, unless with arms-length terms, from a foreign trust.	<hr/>	<hr/>	<hr/>
.5) Is a beneficiary of a foreign trust and transferred property to a foreign grantor of the trust.	<hr/>	<hr/>	<hr/>
140) Consider filing power of attorney.	<hr/>	<hr/>	<hr/>

PARTNERSHIP RETURN OF INCOME CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
200) INCOME	_____	_____	_____
201) Compare sources and amounts of portfolio income with prior year.	_____	_____	_____
202) Determine that only trade or business (e.g., not portfolio or rental) income is shown on Page 1 of Form 1065. Report rental real estate activities on Form 8825.	_____	_____	_____
203) Determine that installment sales are reported properly.	_____	_____	_____
.1) Consider related party rules.	_____	_____	_____
.2) Determine that the full amount of depreciation recapture is reported in the year of sale whether or not a payment was received in that year.	_____	_____	_____
.3) Review for adequate stated interest on debt instruments received in connection with the sale. Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.	_____	_____	_____
.4) If the partnership is a "dealer" with respect to the related property:			
.a) Determine that the installment method is <u>not</u> used to report post December 31, 1987 sales of dealer property. (Exceptions—farm property, certain timeshare rights and residential lots if proper election is made.)	_____	_____	_____
.b) Determine that the interest owed as a result of an election (a) above is properly reported. Note that the interest calculation is done at the partner level.	_____	_____	_____
.c) Consider that manufacturers of tangible personal property will not be eligible to use installment method for sales to dealers after August 5, 1998 (TRA 1997).	_____	_____	_____
.5) Consider special rules for installment reporting by certain non-dealers of real (post 1986 sales) or personal property (post-1988 sales) where the sales price exceeds \$150,000 (§ 453A). (Does not apply to certain farm property.)	_____	_____	_____
.a) Compute the interest charge imposed on outstanding tax deferred installment obligations if the face amount of these obligations that arose during, and are still outstanding at the close of, the tax year exceeds \$5 million. Note that the \$5 million threshold test and interest calculation are done at the partner level.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.b) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	_____	_____
.6) Consider election out of installment method.	_____	_____	_____
.7) Determine if an event has occurred requiring accelerated recognition of the remaining unreported gain (e.g., resale rule for related parties, cancellation of the installment obligation, disposition of the installment obligation).	_____	_____	_____
204) Deferred income and expenses:			
.1) Include in gross income, as appropriate, income deferred for books in the current year.	_____	_____	_____
.2) Exclude from gross income, as appropriate, income for books in the current year that was taken into income for tax in a prior year.	_____	_____	_____
.3) Consider whether there are any advance payments for goods that can be determined under Reg. § 1.481-5. Note the information schedule requirements.	_____	_____	_____
.4) Consider any advance payments for services under Rev. Proc. 71-21.	_____	_____	_____
.5) Determine deductibility of prepaid expenses.	_____	_____	_____
205) For disposed properties:			
.1) Reconcile to depreciation schedule.	_____	_____	_____
.2) Determine holding period and federal, state, AMT and, if there are any corporate partners, ACE and E&P tax bases of property sold.	_____	_____	_____
.3) Determine that related gains and losses are properly characterized:			
.a) Ordinary vs. capital vs. § 1231.	_____	_____	_____
.b) Long term or short term. Note holding period changes (RRA 1998).	_____	_____	_____
.4) Consider the provisions related to:			

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.a) Nonrecognition of gain or loss (Form 8824). Note restriction on exchange of U.S. property for foreign property (TRA 1997).	_____	_____	_____
.b) The rules for like kind exchanges with related parties (Form 8824).	_____	_____	_____
.c) Recapture of depreciation (including § 291 depreciation) and/or tax credits, or reduction of credit carry forward. (See final amendments to Reg. §1.1245 addressing allocation of depreciation recapture among partners.) Note § 1245 applications (TRA 1997).	_____	_____	_____
.d) Allocation of built-in gain/loss (§ 704(c)).	_____	_____	_____
.e) The rules for involuntary conversions of post-1994 Presidentially-declared disasters (SBJPA 1996).	_____	_____	_____
.f) Forced sale of livestock on account of weather related conditions.	_____	_____	_____
.g) Election to rollover gain from the sale of qualified small business stock (RRA 1998).	_____	_____	_____
206) Determine that sales of securities settled after year end, with a trade date within current year, are reported this year. Note special rules for "short sales" in § 1233.	_____	_____	_____
207) Review application of the wash sales rules.	_____	_____	_____
208) Review application of straddle rules and available elections under § 1092.	_____	_____	_____
209) Report gains on constructive sales of appreciated financial positions occurring after June 8, 1997 (TRA 1997).	_____	_____	_____
210) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
211) Determine if there were sales or exchanges during the year between the partnership and a partner, or a related party to a partner to ensure compliance with §§ 267 and 707.	_____	_____	_____
212) Compare Forms 1099 received for proper inclusion in sales, interest income, dividends, etc.	_____	_____	_____
213) For leased property, calculate the appropriate income inclusion amount to be reported (see Vehicle Related Guides).	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
214) Determine if securities held by the partnership became worthless during the year. Note that substantial worthlessness of short sale property is a gain recognition event. (TRA 1997)	<hr/>	<hr/>	<hr/>
215) Consider the mark to market rules for "dealers in securities." Warning: the definition of "dealers in securities" contained in § 475 is not limited to Wall Street brokerage firms. The expansive definition includes many taxpayers involved in lending transactions and various seller financed activities.	<hr/>	<hr/>	<hr/>
.1) Determine that § 475 assets are adjusted to fair market value at the end of the year.	<hr/>	<hr/>	<hr/>
.2) Determine the § 481 adjustment.	<hr/>	<hr/>	<hr/>
.3) Amortize the § 481 adjustment over 5 years (15 years for certain floor specialists and market makers) beginning with the year of change.	<hr/>	<hr/>	<hr/>
.4) Determine if exempt securities were timely identified in taxpayer books and records.	<hr/>	<hr/>	<hr/>
.5) Consider loss limitations for :			
(a) securities not properly identified.	<hr/>	<hr/>	<hr/>
(b) nonfinancial customer paper (RRA 1998).	<hr/>	<hr/>	<hr/>
216) Inquire whether the taxpayer engaged in bartering transactions.	<hr/>	<hr/>	<hr/>
217) Consider exclusion from income of cash or rent reduction received from lessors, under a short-term lease of rental space, utilized to construct leasehold improvements which will revert to the lessor at termination of lease (TRA 1997).	<hr/>	<hr/>	<hr/>
300) DEDUCTIONS			
301) Review the taxpayer's vacation pay accrual policy to determine if a deduction is allowable on the accrual basis (vested at year end and paid within 2½ months after year end).	<hr/>	<hr/>	<hr/>
302) Consider applicability of the uniform capitalization rules which apply to resellers with annual gross receipts in excess of \$10 million and all producers of property. (Note final regulations related to general rules (§ 1.263A-1), producers (§ 1.263A-2) and resellers (§ 1.263A-3)).	<hr/>	<hr/>	<hr/>
.1) Determine that all costs are included.	<hr/>	<hr/>	<hr/>

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Consider interest capitalization rules for debt incurred to produce property.	_____	_____	_____
.3) If the beginning inventory is revalued:			
.a) Ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting (§ 481).	_____	_____	_____
.b) Ascertain § 481 forward spread period (not to exceed four years).	_____	_____	_____
.c) Determine that Form 3115 is attached to the tax return for the year of change.	_____	_____	_____
.d) Consider electing "simplified" methods.	_____	_____	_____
.4) For farmers and ranchers consider:			
.a) One-time election out of uniform capitalization rules if election was not required in a prior year.	_____	_____	_____
.b) The exemption for expenses incurred in the production of animals.	_____	_____	_____
.5) Review the definition of "produce".	_____	_____	_____
303) Long-Term Contracts			
.1) Determine if the taxpayer is subject to the long-term contract reporting rules requiring that the percentage of completion method, instead of the completed contract method, be used to determine taxable income. Note exceptions for certain qualifying construction contracts and most contracts for the manufacture of property.	_____	_____	_____
.2) In determining whether contracts of the taxpayer are subject to the percentage of completion method of reporting, consider:			
.a) Related party rules.	_____	_____	_____
.b) Contract aggregation rules.	_____	_____	_____
.3) Determine that the percentage of completion is calculated based on costs incurred, not work performed.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) Determine that all required costs have been allocated to the contracts. Note the expanded requirement to capitalize costs similar to the uniform capitalization rules.	_____	_____	_____
.5) Consider electing the simplified method of allocating costs, whereby fewer costs are taken into account, to determine the degree of contract completion.	_____	_____	_____
.6) Consider electing the modified percentage of completion method, whereby the recognition of income and accounting for costs is deferred until the first tax year in which at least 10% of the estimated total contract costs have been incurred as of the end of that year. Note that this election is not available if the simplified method above has been elected.	_____	_____	_____
.7) Upon completion of a contract, determine that the "look-back rule" has been applied to compare actual contract price and costs to previously used estimates and pay/claim interest on the related changes in prior years taxes on Form 8697. Note that certain small contracts are not subject to the "look-back rule," and that the "simplified" look back method is required for many partnerships. See TRA 1997 for changes in interest calculations and election to not apply the look-back method.	_____	_____	_____
304) For charitable contributions:			
.1) Inquire if all contributions are to qualified charitable organizations.	_____	_____	_____
.2) Consider the limitation related to contributions of appreciated ordinary income property.	_____	_____	_____
.3) Consider the deduction for more than cost of appreciated capital gains property.	_____	_____	_____
.4) Inquire if adequate contemporaneous documentation was obtained for charitable contributions of \$250 or more.	_____	_____	_____
.5) Determine if Form 8283 is required for non-cash gifts.	_____	_____	_____
305) Determine that all guaranteed payments to partners for services or use of capital, determined without regard to income, have been deducted in computing ordinary income, or have been capitalized as required.	_____	_____	_____
306) Inquire whether the partnership can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel, conventions. Consider optional per diem method.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
307) Limit meals and entertainment to allowable percentage. Consider exceptions. Report the portion disallowed on Schedule K-1 so that each partner can correctly determine their basis in the partnership.	_____	_____	_____
308) Determine the deductibility of club dues.	_____	_____	_____
309) Determine that certain lobbying expenses are not deducted. (Note exceptions).	_____	_____	_____
310) Inquire if dues include nondeductible lobbying expenses.	_____	_____	_____
311) Determine that proper allocations have been made by type (trade or business, investment, passive activity, tax exempt expenditures, etc.).	_____	_____	_____
312) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
313) Other interest considerations:			
.1) Treat amortizable bond premiums (for bonds acquired after 1987) as an offset to interest income. (Note election under § 171(c)).	_____	_____	_____
.2) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on current or former beneficial owners and key employees to the extent that the total of such loans exceeds \$50,000. (Note phase-in rules under HIPAA 1996 and additional limitations for new or materially changed contracts issued after June 8, 1997 (TRA 1997).	_____	_____	_____
.3) Determine if there is an allowable interest deduction related to deferred compensation agreements.	_____	_____	_____
314) Determine that retirement plan contributions have been calculated using the eligible compensation limit and obtain a listing of dates and amounts paid. Note repeal of family aggregation rule, (SBJPA 1996)	_____	_____	_____
315) If taxpayer maintains a profit sharing plan and has not contributed the maximum contribution for each taxable year beginning prior to 1987, calculate the unfunded contribution carryover amount.	_____	_____	_____
316) Determine that the partnership has not deducted interest or expenses accrued to a partner or a related party unless it is includible in the income of the partner or related party. (§ 267).	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
317) Determine that expenses (including interest) allocable to portfolio income have not been deducted on Page 1 Form 1065. They should be reported on Schedule K.	_____	_____	_____
318) If a partner has received an interest in exchange for services rendered, determine if the partnership has properly accounted for the exchange. (Rev. Proc. 93-27).	_____	_____	_____
319) Determine that the specific writeoff method is used for bad debts.	_____	_____	_____
320) Review partially worthless debts for write-off under Reg. § 1.166-3.	_____	_____	_____
321) Consider option to deduct current year qualifying disaster losses on the appropriate preceding year tax return.	_____	_____	_____
322) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
323) Determine if deductions should be reduced by various credits claimed.	_____	_____	_____
324) Determine proper treatment of environmental clean-up expenses. Note expense election (TRA 1997).	_____	_____	_____
325) Determine proper tax treatment for long term lease agreements (as lessor or lessee) where the lease provides for deferred payments or increasing payments (see also Prop. Reg. § 1.467)	_____	_____	_____
326) Determine if inventory write down for book purposes should be adjusted for tax purposes. Note that TRA 1997 allows for estimated inventory shrinkage.	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) For assets placed in service during the current year:			
.1) Consider § 179 election to expense qualifying assets. Note new allowable amounts. (SBJPA 1996)	_____	_____	_____
.2) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property placed in service after June 30, 1993.	_____	_____	_____
.3) Determine the depreciable basis of each asset.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) Determine the property class, recovery period and depreciation method for each asset. Note new limitations on property qualifying for income forecast method designated lives of rent to own property (TRA 1997).	_____	_____	_____
.5) Determine the applicable convention (half-year, mid-quarter or mid-month).	_____	_____	_____
.6) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period.	_____	_____	_____
.7) Consider 36-month depreciation rules for software.	_____	_____	_____
.8) Consider reduced depreciable lives for real estate improvements and special use structure.	_____	_____	_____
.9) Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property.	_____	_____	_____
.10) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.	_____	_____	_____
.11) If property is leased to a tax exempt entity, consider the possible need to use the ADS.	_____	_____	_____
.12) Consider depreciation limitations for IDB financed property, and certified historic structures for which a tax credit was taken.	_____	_____	_____
.13) If a short year, determine that Rev. Proc. 89-15 is followed.	_____	_____	_____
.14) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).	_____	_____	_____
.15) Determine if interest is payable under look-back method where income forecast depreciation method is used (SBJPA 1996). Note interest calculation change (TRA 1997).	_____	_____	_____
.16) Consider accelerated depreciation for qualifying property located on Indian reservations.	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
403) Consider the provisions of Rev. Proc. 96-31 to rectify prior year claims of less than allowable depreciation or amortization.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
404) Determine if leased property/equipment should be capitalized.	_____	_____	_____
405) Consider anti-churning rules.	_____	_____	_____
406) For listed property (e.g., cellular phones, autos, computers, airplanes, boats):			
.1) For autos, consider the maximum allowable under the luxury auto rules. Note TRA 1997 exceptions for clean burning and electric vehicles.	_____	_____	_____
.2) For autos, determine limitation if the business usage is 50% or less.	_____	_____	_____
.3) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	_____	_____	_____
.4) Inquire if the taxpayer has kept the required records indicating the business and personal use of property.	_____	_____	_____
5) Determine recapture if the business usage is 50% or less.	_____	_____	_____
407) Form 4562 (if required):			
.1) Reconcile depreciation expense to supporting schedules.	_____	_____	_____
.2) Complete questions regarding personal use of listed property.	_____	_____	_____
.3) If the costs were incurred during the current year, determine that amortizable items are separately stated and the proper Code section cited.	_____	_____	_____
408) Consider state depreciation, if different.	_____	_____	_____
409) Consider federal and state AMT, ACE and E&P depreciation. (Note that the depreciable lives of tangible personal property placed in service after 12/31/97 are the same for regular and AMT purposes.)	_____	_____	_____
410) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.	_____	_____	_____
500) PARTNER DATA - SCHEDULE K-1			
501) Complete the analysis of distributive items at the bottom of Schedule K.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST **1998 - FORM 1065**

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
502) If the partnership has acquired real estate after December 31, 1986, or a partner has acquired an interest in the partnership after December 31, 1986:			
.1) Apply the at risk rules.			
.2) Identify qualified nonrecourse debt allocated to the partners. (Note clarification to rules for LLC's in Prop. Reg. § 1.465-27).			
503) Consider whether income from a pre-1987 installment sale should be considered passive income.			
504) Verify that the beginning and ending total partners' capital figures on Schedule L agree with the reconciliation of partners' capital accounts—Schedule M-2. If the M-2 capital account is a § 704 capital account, and it is different than that used on Schedule L, attach a reconciliation.			
505) Complete each partner's reconciliation of capital. Verify that the total agrees to the corresponding line on Schedule M-2 Form 1065.			
506) Determine if there has been a transfer of partnership interests during the year and if so, allocate income or loss in accordance with § 706.			
507) Determine that allocations for deceased partners are consistent with § 706. Note that a partnership's taxable year now closes with respect to a deceased partner (TRA 1997).			
508) Determine the allocation of the partnership's recourse, nonrecourse and qualified nonrecourse liabilities and enter separately on each partner's Schedule K-1. Note that § 752 regulations may require debt to be allocated other than in accordance with the profit or loss percentages.			
509) Ensure that the partnership and K-1s report results on an activity by activity basis.			
510) Distribute each item on Schedule K among the K-1s in accordance with the provisions of the partnership agreement, or in accordance with § 704(b) if the partnership agreement is silent on § 704(b). (See § 704(b) Tax Practice Guide).			
511) Determine that proper reporting and detail have been provided for all items that affect partners' tax liability, such as:			
.1) Ordinary trade or business activities.			

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Rental activities.	_____	_____	_____
.3) Depreciation of built in gain/loss property (§ 704(c)).	_____	_____	_____
.4) Portfolio income by type (e.g., U.S. government interest income, state or municipal interest income), and related deductions. Consider need to attach required statement under Reg. § 1.265-1(d)(1).	_____	_____	_____
.5) Gains and losses, dates of dispositions, respective holding periods and type of assets sold. (TRA 1997)	_____	_____	_____
.6) Passive activity data. (See Passive Activity Checklist).	_____	_____	_____
.7) Partners' medical insurance and other fringe benefits. (Rev. Rul. 91-26).	_____	_____	_____
.8) Discharge of indebtedness income.	_____	_____	_____
.9) Self-charged interest. Note Prop. Reg. § 1.469-7 allowing for possible recharacterization of interest income. (See Passive Activity Checklist).	_____	_____	_____
.10) All items that affect partner basis calculations (e.g., nondeductible items).	_____	_____	_____
.11) Guaranteed payments (matching of deduction by partnership and income for partner is required). Note also that group benefits provided to a partner must be treated as guaranteed payments. (Rev. Rul. 91-26).	_____	_____	_____
.12) Credit information.	_____	_____	_____
.13) Interest incurred in the production of property which may have to be capitalized at the partner level.	_____	_____	_____
.14) Casualty loss information.	_____	_____	_____
.15) Charitable contributions, including a copy of Form 8283 when required.	_____	_____	_____
.16) Other passthrough items (e.g., intangible drilling costs, depletion).	_____	_____	_____
.17) Income or deductions arising from a § 743 basis adjustment. (See Prop. Reg. 1.743-1.)	_____	_____	_____
.18) Unrelated business taxable income.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
512) Determine whether the partnership was required to register as a tax shelter—if so, enter the registration number on each K-1.	_____	_____	_____
513) Determine that Form 8271 and appropriate K-1s are attached if the partnership invested in a registered tax shelter. Note that a copy of Form 8271 must be sent to each individual partner.	_____	_____	_____
514) Segregate all tax preference, alternative minimum tax adjustment items, and E&P items and list on the appropriate lines of Schedules K & K-1. Note the changes to the rules regarding charitable donations of appreciated property.	_____	_____	_____
515) Prepare schedules that reflect information to allow each partner to compute credit recapture.	_____	_____	_____
516) Determine that information relating to interest expense on debt-financed distributions to partners has been provided (Notice 89-35).	_____	_____	_____
517) If the partnership has foreign partners:			
.1) Determine that proper withholding was made. (See IRC § 1441-1446)	_____	_____	_____
.2) Determine that proper payment of withholding has been made. (EFTPS)	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Compute net earnings from self-employment for applicable partners and enter on Schedule K and appropriate K-1 forms. (Note legislative moratorium through July 1, 1998 on the definition of a limited partner under TRA 1997.)	_____	_____	_____
602) If a tiered partnership arrangement exists, review §§ 706(c)(2)(B) and 706(d)(3) regarding allocation rules.	_____	_____	_____
603) Consider elections and statements such as:			
.1) Election to amortize organization expense.	_____	_____	_____
.2) Cash vs. accrual method.	_____	_____	_____
.3) Election to expense intangible drilling costs.	_____	_____	_____
.4) Election to amortize business start-up costs.	_____	_____	_____
.5) Method for valuation of inventory.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.6) Research and experimental cost election.	_____	_____	_____
.7) Exception from economic performance for recurring items. Under the final regulations, the election for item(s) incurred for the first time is made by accounting for the item(s) under the recurring method on a timely filed return. Note that this election does not apply to tax shelters (§ 461(i)).	_____	_____	_____
.8) If this is the first year the taxpayer incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception (Rev. Proc. 92-28).	_____	_____	_____
.9) Election to be treated as a partnership (Form 8832).	_____	_____	_____
.10) Change in accounting method application/approval.	_____	_____	_____
.11) Election to step up basis (§ 754).	_____	_____	_____
.12) Election to be treated as a large partnership.	_____	_____	_____
604) Cross reference the following items:			
.1) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____
.2) Schedule M-2 beginning equity accounts to prior year's ending balance.	_____	_____	_____
.3) Detail listings of Schedule L beginning balances to prior year's detail listings of ending balances.	_____	_____	_____
605) Determine that book/tax accounting method differences related to Schedule M-1 are documented in the workpaper files. Consider reporting on Schedule K-1.	_____	_____	_____
606) Determine if any expenditures were incurred that are eligible for the disabled access credit. (See Form 8826). If the taxpayer does not qualify for the credit, or has expenditures in excess of the credit limit, consider making a § 190 election to expense the costs.	_____	_____	_____
607) If the partnership is a party to an "applicable asset acquisition" (transfer of assets that constitute a trade or business or a transfer or distribution to which § 755 applies), determine that applicable reporting requirements regarding allocation of purchase price have been met (Form 8594).	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
608) If the partnership owns an interest in another partnership:			
.1) Consider § 465 at risk and/or § 704(d) basis rules.	_____	_____	_____
.2) Report appropriate recourse and nonrecourse debt from the other partnership on the partners' K-1s. (Rev. Rul. 77-309).	_____	_____	_____
.3) For a distribution from or a technical termination in the 2nd tier partnership, consider both the allocation of basis rules under § 732(c) (TRA 1997), § 751(c) (RRA 1998), (and Prop. Reg. 1.732-1(c)) and making a § 732(d) election. (Note final regulations under § 708). (Note also that a technical termination in the 2nd tier may result in a technical termination of the partnership).	_____	_____	_____
609) Consider § 6662 accuracy-related penalty. If this penalty could result from any income, deduction, loss, or credit item which causes a substantial change in the partner's return and causes the preparer to rise to the level of preparer of the partner's return:			
.1) Consider if substantial authority exists for the item in question. If not, consider disclosure (Form 8275 or 8275R).	_____	_____	_____
.2) Determine if the partnership is a tax shelter for purposes of § 6662.	_____	_____	_____
.3) Consider advising the taxpayer, in writing, of the penalty.	_____	_____	_____
610) Consider informing client of requirement to file Form 8300 for certain payments received exceeding \$10,000.	_____	_____	_____
611) If a partnership interest was sold during the year, attach Form 8308 (if required) to the partnership return and send copies to the transfer or and transferee. Note that certain contribution-distribution arrangements may constitute a "disguised sale" under the final regulations under § 707(a)(2). Some of these transactions may be required to be reported on Form 8275 or 8275R. (Reg. § 1.707-8).	_____	_____	_____
612) If the partnership sells an interest it owns in another partnership determine:			
.1) that appropriate information was given to the partnership to enable it to prepare Form 8308.	_____	_____	_____
.2) That the required statement under Reg. § 1.751-1(a)(3) is attached, if the partnership had any § 751(a) assets.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
613) If the partnership acquires an interest in another partnership, consider providing appropriate information to the partnership (Prop. Reg.-209682-94).	_____	_____	_____
614) If a new partner was admitted, determine if existing partners realized ordinary income due to a reduction in their share of unrealized receivables. Note that if there has been an in-kind distribution, consider gain recognition provisions of the Revenue Reconciliation Act of 1989.	_____	_____	_____
615) Compare net income or loss to projections for reasonableness.	_____	_____	_____
616) Review prior year's return Schedule M-1, for items which may have an effect upon or require similar treatment in the current year.	_____	_____	_____
.1) Reconcile income per books with return (determine nontaxable income not included).	_____	_____	_____
.2) Reconcile expenses per books with return (determine nondeductible items not included).	_____	_____	_____
617) Prepare state and local tax returns (see Nexus Practice Guide).	_____	_____	_____
Consider:			
.1) Each state's modification requirements. (Including ability to deduct expenses allocated to federally tax-exempt income).	_____	_____	_____
.2) State withholding requirements on income allocated to nonresident partners, or distributions made to nonresident partners. Consider notification to the partners that they may be able to use this state tax liability as a credit against their individual state liability.	_____	_____	_____
.3) Desirability of filing a composite return on behalf of all nonresident partners.	_____	_____	_____
.4) State filing requirements for foreign (out of state) partnerships with resident partners.	_____	_____	_____
.5) State filing requirements if the entity is an LLC.	_____	_____	_____
.6) Providing proper information to allow partners to prepare the necessary state tax returns.	_____	_____	_____
.7) Compiling apportionment data for multistate taxpayers.	_____	_____	_____
618) Attach extension requests.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
619) Determine that related party transactions are reported on all available returns.	_____	_____	_____
620) Information returns:			
.1) Inquire whether the partnership has filed all required information returns (1099 and 1098 series) and whether the value of the personal use of employer property, expense reimbursements under "unaccountable plans" and § 401(k) deferred compensation information has been included in its employees' W-2s.	_____	_____	_____
.2) Inquire if the taxpayer has complied with magnetic media filing requirements for Forms 1099 and W-2.	_____	_____	_____
.3) Inquire if additional items subject to employer FICA, such as § 401(k) deferrals, employer-provided excess group-term life insurance, all cash tips, etc., have been properly reported.	_____	_____	_____
.4) Determine that reimbursement of employee moving expenses and tuition and related expenses are properly reported.	_____	_____	_____
.5) Inquire whether club dues, spousal travel, etc., is treated as compensation and included on employee's W-2.	_____	_____	_____
.6) Consider filing information returns relating to foreign partnerships and corporations (TRA 1997).	_____	_____	_____
621) Inquire if employment taxes were timely deposited. (EFTPS)	_____	_____	_____
622) Inquire if the required 5500 series forms have been filed for retirement plans covered by this period.	_____	_____	_____
623) Inquire if the employee benefit plans have been reviewed to determine if they are in compliance due to changing partnership circumstances and law changes.	_____	_____	_____
624) Inquire if 5500 series forms have been filed for cafeteria plans and welfare benefit plans (e.g., medical benefit plans, life insurance, disability or death benefit plans that have more than 100 participants).	_____	_____	_____
625) Advise the partnership that any unpaid retirement plan contribution for the year must be made before the due date of the return, including extensions.	_____	_____	_____
626) Note tax planning/additional service suggestions.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
1998 - FORM 1065

DONE **N/A** **COMMENTS OR**
EXPLANATION

COMMENTS OR EXPLANATIONS

TAX-EXEMPT ORGANIZATION CHECKLIST

The checklists developed by the Committee are contained on the following pages. They are intended to highlight certain items critical to the preparation of the return without reiterating the detailed instructions provided by the I.R.S.

The Committee has also prepared an Organizer for Tax Exempt Organizations which is a good source for more detailed information necessary to prepare Form 990. The Organizer can be used to gather the necessary information from the client as well as to assist the preparer in completion of the return.

The organizer is located in the Practice Guides section of the materials.

MINI-CHECKLIST

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX

1998 - FORM 990

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION					
1. Review prior year returns, workpapers, correspondence, planning suggestions and audit results.	<input type="checkbox"/>	<input type="checkbox"/>	2. Determine if a partnership or S Corporation (SBJPA 1996) interest is owned.	<input type="checkbox"/>	<input type="checkbox"/>
2. Review IRS determination letter.	<input type="checkbox"/>	<input type="checkbox"/>	3. Determine if there is debt financed property.	<input type="checkbox"/>	<input type="checkbox"/>
3. Review activities for exempt qualification.	<input type="checkbox"/>	<input type="checkbox"/>	4. Review royalty agreements.	<input type="checkbox"/>	<input type="checkbox"/>
4. Consider engagement letter.	<input type="checkbox"/>	<input type="checkbox"/>	5. Complete Form 990-T Checklist if any of the above exist.	<input type="checkbox"/>	<input type="checkbox"/>
5. Consider filing 990-EZ.	<input type="checkbox"/>	<input type="checkbox"/>	MISCELLANEOUS		
6. Consider \$25,000 gross receipts test.	<input type="checkbox"/>	<input type="checkbox"/>	1. Verify that statements in Parts III & VIII correspond.	<input type="checkbox"/>	<input type="checkbox"/>
7. Determine if a private foundation required to file 990-PF.	<input type="checkbox"/>	<input type="checkbox"/>	2. Inquire if required information returns were filed.	<input type="checkbox"/>	<input type="checkbox"/>
8. Determine if there are related organizations.	<input type="checkbox"/>	<input type="checkbox"/>	3. Inquire if employment taxes paid/timely deposited.	<input type="checkbox"/>	<input type="checkbox"/>
9. Consider any change in activities.	<input type="checkbox"/>	<input type="checkbox"/>	4. Review independent contractor arrangements.	<input type="checkbox"/>	<input type="checkbox"/>
10. Consider filing a group return.	<input type="checkbox"/>	<input type="checkbox"/>	5. Consider a 501(h) election for lobbying expenditures.	<input type="checkbox"/>	<input type="checkbox"/>
11. Determine if state return or registration is required.	<input type="checkbox"/>	<input type="checkbox"/>	6. For lobbying expenses, inquire whether the organization has elected to pay the proxy tax or report the unallowable portion to members.	<input type="checkbox"/>	<input type="checkbox"/>
REVENUE/EXPENSES			7. Determine if Form 8282 is required for sales of donated property.	<input type="checkbox"/>	<input type="checkbox"/>
1. List all officers, directors, advisors, consultants and compensation, if any.	<input type="checkbox"/>	<input type="checkbox"/>	8. Determine, and disclose taxes paid, relative to excess benefit transactions, excess expenditures to influence legislation, disqualifying lobbying or excess political expenditures. (TBR 1996)	<input type="checkbox"/>	<input type="checkbox"/>
2. List program services rendered and revenue therefrom.	<input type="checkbox"/>	<input type="checkbox"/>	9. Inquire if organization wants to establish a 401(k) plan.	<input type="checkbox"/>	<input type="checkbox"/>
3. Ensure that cash method of accounting is used in Schedule A, Part IV.	<input type="checkbox"/>	<input type="checkbox"/>	10. Determine if a series 5500 form is required.	<input type="checkbox"/>	<input type="checkbox"/>
4. Determine if donated services and facilities are excluded from Parts I and II.	<input type="checkbox"/>	<input type="checkbox"/>	11. Inquire if required contemporaneous substantiations were provided on donations of \$250 or more.	<input type="checkbox"/>	<input type="checkbox"/>
5. Verify that the contribution portion of receipts from fundraising is reported on line 1a.	<input type="checkbox"/>	<input type="checkbox"/>	12. Inquire if required statement was provided to donor for <i>quid pro quo</i> contribution over \$75 received.	<input type="checkbox"/>	<input type="checkbox"/>
6. Break out expenses for line 9b that have been netted in the financial statements.	<input type="checkbox"/>	<input type="checkbox"/>	13. Update permanent file schedule of cumulative contributions by donor.	<input type="checkbox"/>	<input type="checkbox"/>
7. Complete Part IV A & B if the organization has adopted SFAS 116 and 117.	<input type="checkbox"/>	<input type="checkbox"/>	14. Advise client to make annual information returns available for public inspection for 3 years from from filing date. (TBR 1996)	<input type="checkbox"/>	<input type="checkbox"/>
8. Update permanent file schedule of cost for investments that are carried at market.	<input type="checkbox"/>	<input type="checkbox"/>	15. Report the number of employees on the payroll as of March 12th.	<input type="checkbox"/>	<input type="checkbox"/>
BALANCE SHEET			16. Attach extension requests.	<input type="checkbox"/>	<input type="checkbox"/>
1. Attach schedule reconciling opening balance sheet if changes made for SFAS 117.	<input type="checkbox"/>	<input type="checkbox"/>	17. Prepare filing instructions/transmittal (Note all returns now filed in Ogden).	<input type="checkbox"/>	<input type="checkbox"/>
2. Cross reference net assets to page 1.	<input type="checkbox"/>	<input type="checkbox"/>	18. Note tax planning suggestions.	<input type="checkbox"/>	<input type="checkbox"/>
UBIT GENERAL INFORMATION					
1. Determine if there is an unrelated trade or business.	<input type="checkbox"/>	<input type="checkbox"/>			

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST **1998 - FORM 990**

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review for correctness and changes in the organization's name, address, fiscal year, identification number, type of organization, and IRS and state processing center. Note changes.	_____	_____	_____
102) Review prior year returns, memos, workpapers and correspondence, planning suggestions and audit results.	_____	_____	_____
103) Review permanent file and IRS determination letter.	_____	_____	_____
104) Consider obtaining a signed engagement letter.	_____	_____	_____
105) Determine if accounting methods used are comparable to the preceding year unless changes are approved or required. (If SFAS 116 and 117 has been adopted by the client review Notice 96-30.)	_____	_____	_____
106) Inquire whether the organization has made or received any below-market-rate loans. If so, determine imputed interest consequences.	_____	_____	_____
107) If the organization has been examined by the Internal Revenue Service or state taxing authorities:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine if the agent's adjustments affect returns for years other than those audited.	_____	_____	_____
200) DETERMINE THE APPROPRIATE FORMS TO FILE			
201) If the organization is exempt from tax under § 501(a), review the IRS list of organizations excepted from filing annual returns.	_____	_____	_____
202) Determine if the organization meets the \$25,000 gross receipts filing requirement test.	_____	_____	_____
203) Determine whether the organization is eligible to file Form 990-EZ.	_____	_____	_____
204) Determine whether the organization is a private foundation required to file Form 990-PF.	_____	_____	_____
205) If the organization is a nonexempt charitable trust (described in § 4947(a)(1)), determine if:			

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
1998 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.1) The organization is treated as a private foundation, required to file Form 990-PF.	_____	_____	_____
.2) Form 1041 is required.	_____	_____	_____
206) Consider filing a group return.	_____	_____	_____
207) Determine if a state return or registration statement is required. (Note that fundraising in some states may result in a state filing requirement.)	_____	_____	_____
208) For § 501(c)(3) organizations, complete Schedule A.	_____	_____	_____
209) For § 501(c)(7) organizations, determine whether the organization satisfies the gross receipts test required for maintaining its exemption.	_____	_____	_____
210) For § 501(c)(12) organizations, determine whether the organization satisfies the gross income test necessary for exempt status.	_____	_____	_____
300) REVENUE			
301) Contributions:			
.1) Determine that grants received as payment for services are reported as program service revenue and not as contributions.	_____	_____	_____
.2) Inquire about contributions received in a form other than cash.	_____	_____	_____
(a) Determine that donated services, materials, or facilities are excluded in Parts I & II.	_____	_____	_____
(b) For any noncash contribution that is subject to an outstanding debt, determine that the asset has been recorded at its full market value and that the debt has been recorded as a liability.	_____	_____	_____
(c) For other noncash contributions, determine that the contributions have been reported at their market value as of the date of the contribution.	_____	_____	_____
.3) When classifying contributions for reporting purposes, determine that:			
(a) Membership dues and assessments representing contributions rather than payments for benefits received are reported as direct public support.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
1998 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATION</u>
(b) The contribution portion of receipts from fundraising activities is reported as direct public support.	_____	_____	_____
(c) Contributions received from other closely associated organizations are reported as indirect public support.	_____	_____	_____
(d) Contributions received from federated fundraising agencies (such as the United Way) through general solicitation campaigns are reported as indirect public support.	_____	_____	_____
.4) For organizations that received \$5,000 or more from one contributor, attach schedule showing required details.	_____	_____	_____
.5) Determine list of contributors is labeled "Not Open for Public Inspection."	_____	_____	_____
.6) For a <i>quid pro quo</i> contribution in excess of \$75 received by a charitable organization, ascertain that a written statement to the donor was provided that:			
(a) informs the donor that the amount of the contribution that is deductible is limited to the excess of the amount contributed by the donor over the value of the goods or services provided, and	_____	_____	_____
(b) includes a good faith estimate of the value of goods or services received.	_____	_____	_____
.7) For contributions of \$250 or more received by a charitable organization, inquire if contemporaneous substantiation was provided to the donor.	_____	_____	_____
.8) Ensure that the cash method of accounting is used in determining the support test, Schedule A, Part IV.	_____	_____	_____
.9) Update permanent file schedule of cumulative contributions by donor.	_____	_____	_____
 302) Program Service Revenue			
.1) Ascertain the organization's sources of exempt function income and determine that these sources are properly reported.	_____	_____	_____
.2) Determine that income from program-related investments is properly reported as program service revenue.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
1998 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) If the organization had sales of inventory items and the organization is not a hospital, university, or college, determine that these sales are NOT reported as program service revenue.	_____	_____	_____
.4) Determine that payments received by § 501(c)(9), (17) or (18) organizations for premium equivalents have been classified as program service revenue.	_____	_____	_____
303) Determine that amounts received from members and affiliates that are not considered contributions are reported as membership dues and assessments.	_____	_____	_____
304) Determine that income from associates dues which are for the sale of, or provision of access to, goods or services are reported as unrelated trade or business income.	_____	_____	_____
305) Determine that investment income from debt and equity securities is reported separately from investment income from savings and temporary cash investments.	_____	_____	_____
306) Determine that any capital gain dividends are properly reported as gains from investment securities.	_____	_____	_____
307) Update permanent file schedule of cost for investments that are carried at market and determine if investment income includes mark-to-market adjustments.	_____	_____	_____
308) Determine that income or loss of an S corporation is reported as UBTI regardless of the source or nature of such income. (SBJPA 1996)	_____	_____	_____
309) Determine that income and expense are reported at the gross amounts for items such as:			
.1) Rental of investment property.	_____	_____	_____
.2) Sales of securities.	_____	_____	_____
.3) Sales of other types of investments and all other non inventory assets.	_____	_____	_____
310) Fundraising events and activities:			
.1) Inquire about amounts received from fundraising activities that are characterized as revenue (i.e., not contributions).	_____	_____	_____
.2) Allocate professional fund raising fees between the catagories of program service, management, and fundraising.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
1998 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Break out expenses that have been netted for financial reporting.	_____	_____	_____
.4) If the organization had revenue from fundraising activities, consider the need to attach a schedule of detailed information.	_____	_____	_____
.5) Inquire whether the organization has retained samples of its fundraising materials, including advertising copy and transcripts of on air solicitations.	_____	_____	_____
 400) EXPENSES			
401) For § 4947(a)(1) charitable trusts and § 501(c)(3) and (4) organizations, determine that expense classifications have been segregated into the required functional expense categories.	_____	_____	_____
402) Determine that scholarship, fellowship, and research grants awarded by the organization are properly reported.	_____	_____	_____
403) Determine that salaries and wages have been properly classified between compensation paid to officers, directors, and key employees and all other compensation.	_____	_____	_____
404) Consider various depreciation methods and lives that may be used.	_____	_____	_____
405) Consider the need to attach a schedule detailing the computation of depreciation. Determine if Form 4562 is required.	_____	_____	_____
406) If the organization included in program service expenses any joint costs from a combined educational campaign and fundraising solicitation, consider the need to disclose additional information.	_____	_____	_____
407) Determine that a detailed description of the organization's four largest program services is provided along with a schedule listing the organization's other program services. The reporting of expense totals is required only for organizations required to report expenses on a functional basis.	_____	_____	_____
 500) BALANCE SHEET			
501) Determine that non-interest-bearing cash accounts are segregated from interest-bearing cash and investment accounts on the balance sheet.	_____	_____	_____
502) Regarding receivables, inquire whether there are:			
.1) Pledges receivable.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
1998 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Grant receivables from governmental units, foundations, or other organizations.	_____	_____	_____
.3) Receivables from officers, directors, trustees, or key employees.	_____	_____	_____
.4) Other notes or loans receivable.	_____	_____	_____
(a) If so, determine that notes acquired as investments are separately identified and reported from notes that are program-related investments.	_____	_____	_____
(b) Consider the need to attach a detail schedule.	_____	_____	_____
 503) Inquire whether there are:			
.1) Program-related investments.	_____	_____	_____
.2) Land, buildings, or equipment held for investment.	_____	_____	_____
 504) If the organization has notes, mortgages, and loans payable obtain details of:			
.1) Amounts payable to officers, directors, trustees, or key employees.	_____	_____	_____
.2) Mortgages payable.	_____	_____	_____
.3) Other outstanding notes payable.	_____	_____	_____
 505) Fund balances or net assets:			
.1) Determine that all funds without donor imposed restrictions have been shown as unrestricted.	_____	_____	_____
.2) Determine that funds with temporary donor restrictions are so classified.	_____	_____	_____
.3) Determine that the fund balances for permanent endowment funds and term endowment funds are reported as permanently restricted funds.	_____	_____	_____
.4) Verify that mark-to-market adjustments are reported as a part of other changes in net assets on page 1.	_____	_____	_____
.5) Determine if the basis in purchased S corporation stock should be reduced by dividends received. (SBJPA 1996)	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
1998 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.6) Cross reference total to page 1 of Form 990.	_____	_____	_____
600) LIST OF OFFICERS, DIRECTORS, TRUSTEES, AND KEY EMPLOYEES			
601) Review definition of key employee and determine whether the organization employs personnel satisfying this definition.	_____	_____	_____
602) Obtain a list of all officers, directors, trustees, and key employees, including their names and addresses.	_____	_____	_____
603) Inquire about the total compensation package of the organization's officers, directors, and key employees. Report items such as:			
.1) Salary, fee, bonuses, and severance payments.	_____	_____	_____
.2) Deferred compensation arrangements (whether or not funded; whether or not vested; whether or not the plan is a qualified plan under § 401(a)).	_____	_____	_____
.3) Expense allowances or reimbursements.	_____	_____	_____
.4) The value of the personal use of housing, automobiles, or other assets provided by the organization.	_____	_____	_____
.5) Other taxable and nontaxable fringe benefits (i.e., health and life insurance).	_____	_____	_____
604) If an officer, director, trustee, or key employee received compensation from related organizations, consider need to attach detail statement.	_____	_____	_____
605) Consider reasonableness of compensation.	_____	_____	_____
700) OTHER INFORMATION			
701) Inquire whether the organization has had significant changes in the kind of activities conducted to further its exempt purpose. Consider need to attach detail explanation.	_____	_____	_____
702) Determine that no part of the earnings of a § 501(c)(3) or § 501(c)(4) organization inure to the benefit of a private shareholder or individual. (TBR 1996)	_____	_____	_____
703) Inquire whether the organization has revised its governing documents. Consider need to attach conformed copy of changes.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
1998 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
704) Complete Form 990-T Checklist if:			
.1) There is an unrelated trade or business.	_____	_____	_____
.2) There is debt financed property.	_____	_____	_____
.3) A partnership or S corporation, or any other entity interest is owned.	_____	_____	_____
.4) Income is received from a royalty agreement.	_____	_____	_____
705) Determine if the organization owned a 50% or greater interest in any taxable corporation or partnership during the year. If so, properly report:			
.1) Name, address, and identification number of taxable subsidiary.	_____	_____	_____
.2) Percentage of ownership interest.	_____	_____	_____
.3) Nature of the subsidiary's business activities.	_____	_____	_____
.4) Total income and end-of-year assets of the subsidiary.	_____	_____	_____
706) Determine effect of look-through rule for interest, annuities, royalties and rents derived by subsidiaries of tax-exempt organizations. (TRA 1997)	_____	_____	_____
707) Inquire if there has been a sale or other disposition of exempt organization's assets.	_____	_____	_____
708) Determine if there was a liquidation, dissolution, termination, or substantial contraction.	_____	_____	_____
709) Determine if the organization is related to other organizations.	_____	_____	_____
710) Determine if Form 1120-POL is required.	_____	_____	_____
711) Determine if the organization has properly reported solicited contributions that are not tax deductible.	_____	_____	_____
712) Determine if there is an issue relative to an excess benefit transaction wherein a disqualified person engaged in a non-fair market value transaction with a § 501(c)(3) or (4) organization or received unreasonable compensation. (TBR 1996)	_____	_____	_____
713) If there were any excess benefit transactions (TBR 1996):			
.1) Attach a schedule describing the transactions.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
1998 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATION</u>
.2) Indicate if corrections were made.	_____	_____	_____
714) Determine if a statement describing lobbying activities needs to be attached for organizations that have not elected § 501(h).	_____	_____	_____
715) Determine if organization has excess lobbying expenditures or excess political expenditures. (TBR 1996)	_____	_____	_____
716) Disclose taxes paid during year for the following (by the organization, or any disqualified persons): (TBR 1996)			
1.) excess benefit transactions	_____	_____	_____
2.) excess expenditures to influence legislation	_____	_____	_____
3.) excess political expenditures	_____	_____	_____
4.) disqualifying lobbying expenditures	_____	_____	_____
717) Determine and report the number of employees on the payroll as of March 12th.	_____	_____	_____
718) Determine that all questions have been answered or marked N/A.	_____	_____	_____
800) ANALYSIS OF INCOME-PRODUCING ACTIVITIES			
801) Complete analysis of income-producing activities and correlate related income with program service detail at 302.	_____	_____	_____
802) For income related to the organization's exempt purpose, provide required explanations of the relationship of activities to the accomplishment of exempt purposes.	_____	_____	_____
803) Determine there is a proper correlation between the information in Parts III and VIII.	_____	_____	_____
804) For other income, review the list of exclusion codes to identify revenue excludable from unrelated business taxable income.	_____	_____	_____
805) Compare amounts reported in Part VII to amounts reported in Part I.	_____	_____	_____
900) MISCELLANEOUS			
901) Reconcile income and expense per books with return.			
.1) For organizations that conform to SFAS 116 and 117 complete part IV A and B.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
1998 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) For other organizations, prepare schedule for files.	_____	_____	_____
902) Review instructions and determine that all appropriate attachments have been prepared.	_____	_____	_____
903) Determine if Form 8282 is required for sales of donated property.	_____	_____	_____
904) Inquire if employment taxes paid.	_____	_____	_____
905) Determine that taxes were timely deposited.	_____	_____	_____
906) Determine if electronic deposits of taxes are required.	_____	_____	_____
907) Determine if a series 5500 form is required for qualified plans.	_____	_____	_____
908) Determine if a series 5500 form is required for § 501(c)(9) and § 501(c)(17) organizations.	_____	_____	_____
909) Determine if § 403(b) salary reduction agreements have been modified: (SBJPA 1996)			
.1) To allow participants to enter into more than 1 salary reduction agreement in any taxable year.	_____	_____	_____
.2) Identifying compensation to which salary reduction agreement applies.	_____	_____	_____
.3) Clarifying the revocability of the agreement.	_____	_____	_____
910) Consider recommending the establishment of a 401(k) plan. (SBJPA 1996)	_____	_____	_____
911) Inquire whether the organization has filed all required information returns (1098 and 1099 series).	_____	_____	_____
912) Determine whether the personal use portion of employer property, expense reimbursements under "unaccountable plans," and deferred compensation information has been included in employees' W-2s.	_____	_____	_____
913) Review all independent contractor arrangements to ascertain if there are any improperly classified service providers.	_____	_____	_____
914) Determine that the organization used Form W-9 to obtain ID #s for recipients of prizes or awards.	_____	_____	_____
915) Advise exempt organizations (§§ 501(c)(4), (5), & (6)) that they have the following options available for lobbying expenditures:			

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
1998 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.1) Pay 35% proxy tax on lobbying expenditures. Member dues would be deducted in full.	_____	_____	_____
.2) Provide notice to members setting forth the estimated percentage of dues attributed to lobbying for the forthcoming year. That percentage of member dues would be nondeductible.	_____	_____	_____
a) Prepare required disclosure.	_____	_____	_____
b) Prepare election on treatment of expenditures in excess of percentage reported to members.	_____	_____	_____
916) Advise § 501(c)(3) organizations that a donor can't claim a deduction for contributions in cases where the charity engages in lobbying activities that pertain directly to the donor's business.	_____	_____	_____
917) Consider § 501(h) lobbying expenditure election for qualified § 501(c)(3) organizations.	_____	_____	_____
918) Determine that client makes its annual information returns available for public inspection for 3 years from the filing date. (See Proposed Regulation § 301.6104(e) - 0 for guidance) (TBR 1996)	_____	_____	_____
919) Determine that client has its exemption application and related documents available for public inspection. (TBR 1996)	_____	_____	_____
920) Advise client that it must furnish a copy of its exemption application and/or information returns for the last three years to anyone who requests so in writing. (See Proposed Regulation cited above if the organization felt it was subjected to a harassment campaign). (TBR 1996)	_____	_____	_____
921) Advise client that the information returns which are available for public inspection must be properly signed. (TBR 1996)	_____	_____	_____
922) Verify that all return attachments contain the taxpayer's name, ID # and tax year.	_____	_____	_____
923) Attach extension requests.	_____	_____	_____
924) Prepare filing instructions and transmittal letter. (Note all returns now filed in Ogden).	_____	_____	_____
925) Tell client to obtain written proof of mailing if it chooses to use a private mailing service.	_____	_____	_____
926) Advise client to file Form 8822 if it changes its address during the year.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
1998 - FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATION</u>
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927) Note planning suggestions.

_____	_____	_____
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COMMENTS OR EXPLANATIONS

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST **1998-FORM 990-T**

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Determine if the organization is required to file a business income tax return:			
.1) Determine if the organization has unrelated business income.	_____	_____	_____
.a) Determine if the income:			
(i) Is from a trade or business that is regularly carried on; and	_____	_____	_____
(ii) Is not substantially related to the exempt purposes for which the organization was formed.	_____	_____	_____
.b) Review the special rules for:			
(i) Debt-financed property.	_____	_____	_____
(ii) Foreign organizations.	_____	_____	_____
(iii) Social clubs.	_____	_____	_____
(iv) Voluntary employee benefit organizations.	_____	_____	_____
(v) Supplemental unemployment compensation trusts.	_____	_____	_____
(vi) Organizations whose exclusive function is to form part of a qualified group legal services plan.	_____	_____	_____
(vii) Veterans organizations.	_____	_____	_____
.2) Determine if the unrelated gross business income equals or exceeds \$1,000.	_____	_____	_____
.3) Determine if the organization is subject to the proxy tax for lobbying activities under § 6033(e).	_____	_____	_____
102) Review prior years returns and workpapers.	_____	_____	_____
103) Obtain copies of prior years IRS audit reports.	_____	_____	_____
200) EXCLUSIONS			

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
1998 - FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATION</u>
201) Exclude income for a trade or business:			
.1) Where substantially all the work in carrying on such trade or business is performed for the organization without compensation; or	_____	_____	_____
.2) Which is carried on, in the case of an organization described in § 501(c)(3) or in the case of a college or university described in § 511(a)(2)(B), by the organization primarily for the convenience of its members, students, patients, officers, or employees; or	_____	_____	_____
.3) Where substantially all of the merchandise sold has been received by the organization as gifts or contributions.	_____	_____	_____
202) If the organization is described in § 501(c)(3), (4) or (5) exclude income from a qualified public entertainment activity.	_____	_____	_____
203) If the organization is described in § 501(c)(3), (4), (5) or (6) exclude income from a qualified convention or trade show activity.	_____	_____	_____
204) For a hospital described in § 170(b)(1)(A)(iii) exclude income from furnishing one or more of the services described in § 501(e)(1)(A) to one or more hospitals described in § 170(b)(1)(A)(iii) if:			
.1) Such services are furnished solely to hospitals which have facilities to serve not more than 100 inpatients;	_____	_____	_____
.2) Such services, if performed on its own behalf by the recipient hospital, would constitute activities in exercising or performing the purpose or function constituting the basis for its exemption; and	_____	_____	_____
.3) Such services are provided at a fee or cost which does not exceed the actual cost of providing such services, such cost including straight line depreciation and a reasonable amount for return on capital goods used to provide such services.	_____	_____	_____
205) Exclude income from conducting qualified bingo games.	_____	_____	_____
206) For an organization to which contributions are deductible under § 170(c)(2) or (3), exclude income from:			
.1) the distribution of low cost articles if the distribution of such articles is incidental to the solicitation of charitable contributions, or	_____	_____	_____
.2) any trade or business which consists of:			

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
1998 - FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.a) exchanging with another such organization, names and addresses of donors, or	_____	_____	_____
.b) renting names or addresses to another such organization.	_____	_____	_____
207) Exclude income from research for the United States, or its agencies or instrumentalities, or any state or political subdivision.	_____	_____	_____
208) For a college, university, or hospital exclude income from research performed for any person.	_____	_____	_____
209) For an organization operated primarily for purposes of carrying on fundamental research, exclude income if the results are freely available to the general public.	_____	_____	_____
210) For a religious order, or educational organization maintained by the religious order, exclude income for services provided under federal license.	_____	_____	_____
211) Exclude qualified sponsorship payments from UBI. (Applies to payments received after 12/31/97 - TRA 1997)	_____	_____	_____
300) INCOME			
301) Determine that advance payments are reported per Reg. § 1.451-5.	_____	_____	_____
302) Determine that service revenue deemed uncollectible is not accrued.	_____	_____	_____
303) Report the appropriate amount of gain or loss from the sale, exchange, or other disposition of unrelated debt-financed property.	_____	_____	_____
304) Report income from the sale of stock in trade or other property of a kind which would properly be includible in inventory if on hand at the close of the taxable year.	_____	_____	_____
305) Report income from the sale of property held primarily for sale to customers in the ordinary course of the trade or business, unless the property meets the exception in § 512 (b)(16)(A).	_____	_____	_____
306) If the organization maintains inventory, determine if § 263A rules apply.	_____	_____	_____
307) If the organization is a member of a partnership or S corporation (SBJPA 1997) that carries on an unrelated trade or business:			

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
1998 - FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.1) Determine that its allocable share of gross income and deductions have been included in UBTI.	_____	_____	_____
.2) Determine if the at-risk or passive activity rules apply.	_____	_____	_____
308) Determine if the organization has included its share of rents from:			
.1) Personal property leased with real property, if the rents from the personal property are more than 10% of the total rents received or accrued, or	_____	_____	_____
.2) Real and personal property if:			
.a) More than 50% of the rents are for the personal property, or	_____	_____	_____
.b) The amount of rent depends on the income or profits derived by any person from the property leased.	_____	_____	_____
309) Determine that income from occupying space when personal services are provided (e.g., hotel) is reported as unrelated business income unless it meets another exemption.	_____	_____	_____
310) Determine that the organization has included income (e.g., dividends, interest, annuities, royalties, and rents) attributable to property held to produce income and with respect to which there is an acquisition indebtedness, except for:			
.1) Income from property substantially all the use of which contributes importantly (aside from the need for funds) to the organization's performance of its exempt functions;	_____	_____	_____
.2) Income which has already been subject to tax under the unrelated business tax;	_____	_____	_____
.3) Income from property which is used as part of a research activity which is exempted;	_____	_____	_____
.4) Income from property which is used in a trade or business activity that qualifies for the convenience, volunteer labor, or thrift shop exceptions;	_____	_____	_____
.5) Income from real property that is to be used by the exempt organization within 10 years and is within the "neighborhood" (See special rule for churches.); or	_____	_____	_____

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
1998 - FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.6) Income from real property investments of educational institutions (as described in § 170(b)(1)(A)(ii)), qualified § 401 trust, and § 501 (c)(25) title holding companies are excluded.	_____	_____	_____
311) If the organization received income (e.g., interest, annuities, royalties, and rents) from a 50% (80% for years beginning prior to 8/15/97 - TRA 1997) controlled organization:			
.1) Include 100% of the payments from a taxable subsidiary.	_____	_____	_____
.2) Determine the inclusion ratio for payments from an exempt subsidiary.	_____	_____	_____
.3) Determine effect of look-through rule for interest, annuities, royalties and rents received from taxable subsidiaries and second tier subsidiaries.	_____	_____	_____
312) Determine if the organization has included income from the commercial exploitation of its name, goodwill or other intangible assets created by its exempt activities (e.g., endorsements made by a research organization, rentals of mailing lists, affinity card programs).	_____	_____	_____
313) Determine if the organization has included income from the sale of advertising in a periodical.	_____	_____	_____
400) DEDUCTIONS			
401) Determine that direct expenses have a "proximate and primary relationship" to carrying on the business. (Where personnel, facilities, etc., are used both for exempt activities and unrelated activities, such costs are allocated on a "reasonable and consistent basis.")	_____	_____	_____
402) Determine that general and administrative expenses are allocated using a method that shows a direct link between the cost and the unrelated activity.	_____	_____	_____
403) Consider the limitations on allocating costs to exploited exempt activity income.	_____	_____	_____
404) Consider the limitations on allocating costs to advertising income.	_____	_____	_____
405) Determine that all cost and expense allocations are documented in the workpapers.	_____	_____	_____
406) Consider the limitation on the deductibility of capital losses.	_____	_____	_____

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
1998 - FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATION</u>
407) Consider the limitaions on the use of net operating losses. (Note the carryback and carryforward provisions have changed. (TRA 1997))	_____	_____	_____
408) Update schedule of net operating loss and capital loss carryovers.	_____	_____	_____
409) Consider charitable contribution rules and limitations.	_____	_____	_____
410) Consider limitations on deductions between related parties.	_____	_____	_____
411) Inquire whether the organization can substantiate by adequate records expenses claimed for entertainment, gifts, travel and conventions.	_____	_____	_____
412) Limit deductions for meals and entertainment to allowable percentage.	_____	_____	_____
413) Determine that retirement plan contributions are within allowable limits and are made timely.	_____	_____	_____
414) Consider all depreciation requirements and options including:			
.1) Section 179 election.	_____	_____	_____
.2) Methods and lives.	_____	_____	_____
.3) Requirements relating to listed property.	_____	_____	_____
415) Determine the amount of the specific deduction.	_____	_____	_____
500) TAX COMPUTATIONS AND CREDITS			
501) Compute alternative minimum tax.	_____	_____	_____
502) Consider application of environmental tax.	_____	_____	_____
503) Consider application of proxy tax.	_____	_____	_____
504) Consider tax credits.	_____	_____	_____
505) Confirm current year estimated tax payments, prior year overpayments applied and extension payments.	_____	_____	_____
506) Determine if electronic deposit of taxes is required.	_____	_____	_____
507) Consider underpayment penalties.	_____	_____	_____

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
1998 - FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
508) Determine need for subsequent period estimated tax payments.	_____	_____	_____
509) Determine need to file business income tax returns with state or local authorities.	_____	_____	_____

COMMENTS OR EXPLANATIONS

RETURN OF PRIVATE FOUNDATION CHECKLIST
1998 - FORM 990-PF

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Review prior year returns, workpapers, correspondence, planning suggestions and audit results.	_____	_____	_____
102) Review IRS determination letter.	_____	_____	_____
103) Determine if prior year returns have been examined by the IRS or the state and if so, obtain copies of the agents' reports and determine if the foundation is in compliance with any recommended changes.	_____	_____	_____
104) Consider obtaining a signed engagement letter.	_____	_____	_____
105) Update pro forma information.	_____	_____	_____
106) Determine if there are related organizations.	_____	_____	_____
107) Consider any change in activities.	_____	_____	_____
108) Determine if state return is required.	_____	_____	_____
200) REVENUE/EXPENSES			
201) List all officers, directors, advisors, consultants and their compensation, if any, including health and welfare benefits and pension contributions.	_____	_____	_____
202) Determine that the above list is current and documented in the board minutes.	_____	_____	_____
203) For expenses that relate to both an investment and a charitable activity, determine that a reasonable and consistent allocation of such expenses (including depreciation) has been made and that the organization maintains documentation to support the allocation methods used.	_____	_____	_____
204) List grants paid, purpose of each grant, and verify public status of all recipients.	_____	_____	_____
205) Determine if any grants require expenditure responsibility, and, if so, obtain appropriate documentation and disclose in the return.	_____	_____	_____
206) Determine that grant application criteria is documented and current.	_____	_____	_____
	_____	_____	_____

RETURN OF PRIVATE FOUNDATION CHECKLIST
1998 - FORM 990-PF

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
207) Verify that amounts reported as expenses attributable to charitable activities do not exceed the income from those activities that is reported in adjusted net income.			
208) Ensure that charitable disbursements are included in Part I using the cash method of accounting.	_____	_____	_____
209) Determine that donated services and facilities are excluded from Parts I and II.	_____	_____	_____
210) Reconcile revenues and expenses to amounts shown on the books.	_____	_____	_____
211) Obtain a list of all current grantors, including names and addresses.	_____	_____	_____
212) Update permanent file schedule of cumulative contributions received by donor.	_____	_____	_____
213) Update permanent file schedule of cost for investments that are carried at market value.	_____	_____	_____
214) For sales of assets determine the proper tax basis including assets with a December 31, 1969 substituted basis.	_____	_____	_____
300) UNRELATED BUSINESS INCOME TAX			
301) Determine if there is an unrelated trade or business.	_____	_____	_____
302) Determine if a partnership or S corporation (SBJPA 1996) interest is owned.	_____	_____	_____
303) Determine if there is debt-financed property.	_____	_____	_____
304) Review royalty agreements.	_____	_____	_____
305) Complete Form 990-T Checklist if any of the above exist.	_____	_____	_____
400) MINIMUM INVESTMENT RETURN			
401) Calculate the average monthly fair market value for publicly traded securities.	_____	_____	_____
402) When calculating minimum investment return:			
.1) Identify and exclude exempt purpose assets.	_____	_____	_____
.2) Determine reasonable allocation for properties used for both investment and charitable activities.	_____	_____	_____

RETURN OF PRIVATE FOUNDATION CHECKLIST
1998 - FORM 990-PF

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Determine that appraisals of real property have been updated within five years.	_____	_____	_____
500) EXCISE TAXES			
501) Determine if the organization has done any of the following:			
.1) Engaged in acts of self-dealing.	_____	_____	_____
.2) Failed to make required distributions, after applying any carryovers.	_____	_____	_____
.3) Failed to dispose of any excess business holdings within the proper time period.	_____	_____	_____
.4) Made investments that jeopardize the foundation's charitable purpose.	_____	_____	_____
.5) Made taxable or political expenditures.	_____	_____	_____
502) If it has been determined that the organizations engaged in any of the above activities:			
.1) File Form 4720 (Return of Certain Excise Taxes on Charities and Other Persons Under Chapters 41 and 42 of the Internal Revenue Code).	_____	_____	_____
.2) Verify that the organization has taken steps to correct the act within the proper time period.	_____	_____	_____
503) Determine if election is needed to distribute prior years undistributed income.	_____	_____	_____
600) MISCELLANEOUS			
601) Consider whether estimated payments have been made on a timely basis and review requirements for subsequent year's estimated taxes. (Note the first quarter estimate is now due the 15th day of the fifth month for tax years beginning after 8/5/97 - TRA 1997.)	_____	_____	_____
602) Complete Form 2220 (Underpayment of Estimated Tax by Corporation) and attach it to return if required.	_____	_____	_____
603) Obtain copy of notice regarding public inspection of exemption application and annual returns that was published in a newspaper with general circulation in the county in which the foundation's principal office is located. Attach this notice to the return.	_____	_____	_____

RETURN OF PRIVATE FOUNDATION CHECKLIST
1998 - FORM 990-PF

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
604) Determine if copies of Form 990-PF should be sent to the state attorney general's office and/or other state officials.	_____	_____	_____
605) Inquire if required information returns were filed.	_____	_____	_____
606) Inquire if employment taxes paid/timely deposited.	_____	_____	_____
607) Review independent contractor arrangements.	_____	_____	_____
608) Determine if Form 8282 is required for sales of donated property.	_____	_____	_____
609) Determine if a series 5500 form is required.	_____	_____	_____
610) Inquire if required contemporaneous substantiations were provided on donations of \$250 or more.	_____	_____	_____
611) Inquire if required statements were provided to donors for <i>quid pro quo</i> contributions over \$75.	_____	_____	_____
612) Verify that return attachments contain the taxpayer's name, ID# and tax year.	_____	_____	_____
613) Attach extension requests.	_____	_____	_____
614) Prepare filing instructions/transmittal. (Note all returns now filed in Ogden).	_____	_____	_____
615) Determine if electronic deposits of taxes are required.	_____	_____	_____
700) OTHER CONSIDERATIONS			
701) Consider the possibility of changing the organization tax status to a public charity or private operating foundation.	_____	_____	_____
702) Consider increasing qualifying distributions so the organization can qualify for the 1% reduced rate of tax on net investment income.	_____	_____	_____
703) Consider distributing appreciated securities to grantees to avoid excise tax in capital gains.	_____	_____	_____
704) Determine that property distributions were reported at fair market value as opposed to cost.	_____	_____	_____
705) Consider obtaining advance approval from the IRS if the organization is planning any projects that qualify for a set-aside under the suitability test.	_____	_____	_____

RETURN OF PRIVATE FOUNDATION CHECKLIST **1998 - FORM 990-PF**

		<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
706	Determine if there was a liquidation, dissolution, determination or substantial contraction.	_____	_____	_____
707	If the organization uses five-year appraisal intervals to value real estate:			
	.1) Consider obtaining a new appraisal for real estate that has depreciated in value.	_____	_____	_____
	.2) Determine if any new appraisals are required before the end of the current year.	_____	_____	_____

COMMENTS OR EXPLANATIONS

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1998 - FORM 5500 SERIES

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Verify if the current plan document is on file. Note the date of the latest amendment to the plan and the date of the latest plan document restatement.	_____	_____	_____
102) Verify that plan documents and amendments were signed and approved by proper persons, noting signature date.	_____	_____	_____
103) Review the plan sponsor/employer name, address, plan year, identification number, telephone number, business code, and CUSIP number. Note changes.	_____	_____	_____
104) Review the name, address, identification number and telephone number of the plan administrator if they are different from those of the plan sponsor. Note changes.	_____	_____	_____
105) Verify that a copy of IRS determination letter (if applicable) is on file. Determine whether any plan amendments have been adopted since the date of the latest determination letter.	_____	_____	_____
106) Review prior year returns, review memos, workpapers and correspondence files.	_____	_____	_____
107) Review plan name, effective date, plan number; determine if the plan name as shown on the plan document is the same as shown on Form 5500 for the prior year.	_____	_____	_____
108) If the plan is a pension benefit plan and has been examined by the Internal Revenue Service or Department of Labor:			
.1) Obtain copies of the examination report.	_____	_____	_____
.2) Verify that examination adjustments have been entered on the plan's records.	_____	_____	_____
.3) If any examination adjustments affect the sponsor's income tax returns, consider preparation of amended returns for all tax years affected, or advise preparer of recommended change.	_____	_____	_____
109) If the plan sponsor has changed its tax year-end, determine if the plan year has been, or should be, changed to correspond to the sponsor's new tax year.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1998 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
110) Determine if the employer is a member of a controlled group of corporations or a member of a group of businesses under common control.	_____	_____	_____
111) Determine if the plan is subject to the multiemployer or multiple employer plan filing requirements.	_____	_____	_____
112) Review the plan document or summary plan description to identify benefits provided by or allowed under the plan (i.e., welfare benefits, fringe benefits, or pension benefits, participant-directed account plans, master trust, or cash or deferred arrangements).	_____	_____	_____
113) Inquire if administrator of a pension benefit plan has a file of beneficiary designations and participant and spousal consent forms for benefit options. (I.R.C. § 417(e))	_____	_____	_____
114) Determine whether there are reporting requirements for investment arrangements filing directly with the Department of Labor:			
.1) Common/Collective Trust or Pooled Separate Account.	_____	_____	_____
.2) Master Trust.	_____	_____	_____
.3) 103-12 Investment Entity.	_____	_____	_____
115) Determine whether the plan holds assets that have a fair market value that is not readily determinable and, if so, whether an appraisal by an independent third party appraiser is appropriate.	_____	_____	_____
200) DETERMINE THE APPROPRIATE FORMS TO FILE			
201) Determine if the plan qualifies for exclusion from filing. Consider Department of Labor notification.	_____	_____	_____
202) If required to file, determine which one of the following to file:			
.1) Form 5500	_____	_____	_____
.2) Form 5500-C (first and final year and every third year)	_____	_____	_____
.3) Form 5500-R (can not be used if this is the plan's first or final year)	_____	_____	_____
.4) Form 5500-EZ.	_____	_____	_____
203) Determine if additional forms are required or would be beneficial such as:			
.1) Schedule A - Insurance Information.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1998 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Schedule B - Actuarial Information.	_____	_____	_____
.3) Schedule C - Service Provider and Trustee Information.	_____	_____	_____
.4) Schedule E - ESOP Annual Information.	_____	_____	_____
.5) Schedule F - Fringe Benefit Plan Annual Info Return.	_____	_____	_____
.6) Schedule G - Financial Schedules.	_____	_____	_____
.7) Schedule P - Annual Return of Fiduciary of Employee Trust.	_____	_____	_____
.8) Schedule SSA - Annual Registration Statement Identifying Separated Participants with Deferred Vested Benefits.	_____	_____	_____
 204) Determine if other attachments are required, such as:			
.1) Accountant's opinion, financial statements.	_____	_____	_____
.2) Form 5558 - Extension of Time to File (or sponsor's income tax extension form if the automatic extension provisions apply).	_____	_____	_____
.3) Department of Labor filing attachments.	_____	_____	_____
 205) Determine that Pension Benefit Guaranty Corporation Form 1 has been filed for a defined benefit pension plan.			
.1) Determine the appropriate plan year for which the filing is made (Form 1 is filed for the current year; Form 5500 for the preceding plan year).	_____	_____	_____
.2) Determine the due dates for Form 1 and for installment premium payments.	_____	_____	_____
.3) Determine if plan is subject to variable rate premiums.	_____	_____	_____
 300) SPECIFIC PLAN CHARACTERISTICS			
ALL PLANS			
 301) Ascertain the plan's funding and benefit arrangements.			
_____	_____	_____	_____
 302) Determine if the plan was established pursuant to one or more collective bargaining agreements, and if so, enter the appropriate six-digit LM number(s).			
_____	_____	_____	_____
 303) Determine if the plan is subject to bonding requirements, and if so, the amount of fidelity bond covering the plan and the name of the bonding surety company.			
_____	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1998 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR</u> <u>EXPLANATION</u>
304) Determine if any person who rendered services to the plan received \$5000 or more in compensation from the plan during the plan year, and if so, complete Schedule C.	_____	_____	_____
305) Determine if any service provider was terminated during the plan year, and if so, provide the necessary information on Schedule C.	_____	_____	_____
306) Consider preparing Schedule G if during the plan year the plan:			
.1) Had assets held for investment purposes, including those both acquired and disposed of within the plan year.	_____	_____	_____
.2) Had loans or fixed income obligations in default or that were considered uncollectible.	_____	_____	_____
.3) Had leases that were in default or that were considered uncollectible.	_____	_____	_____
.4) Had transactions or a series of transactions in excess of 5% of the current value of plan assets.	_____	_____	_____
.5) Engaged in nonexempt transactions with parties-in-interest.	_____	_____	_____
307) Determine if the plan acquired individual whole life contracts during the plan year.	_____	_____	_____
 PENSION BENEFIT PLANS ONLY			
308) Determine coverage requirements.			
.1) Review the plan's § 410 coverage information.	_____	_____	_____
(a) Determine that either the ratio percentage test or the average benefit test has been passed, or that an exception applies.	_____	_____	_____
(b) Determine if the plan is passing coverage under the substantiation guidelines. If the coverage test date is the last day of the plan year, verify that the figure for employees participating at the end of the plan year is consistent with the year-end participant figure in the participant census question.	_____	_____	_____
(c) Determine if all employees of the sponsor are included as the starting point for testing purposes.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1998 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(d) Determine whether any employees may be excluded from testing consideration due to:			
(i) their failure to meet the plan's age or service requirements;	_____	_____	_____
(ii) their being collectively bargained employees;	_____	_____	_____
(iii) their being nonresident aliens who received no earned income from United States sources; or	_____	_____	_____
(iv) their having terminated after working less than 500 hours during the plan year.	_____	_____	_____
(e) Assure that leased employees have been properly considered.	_____	_____	_____
(f) Determine whether highly compensated employees have been properly identified.	_____	_____	_____
.2) Determine if separate lines of business, aggregation, disaggregation, or restructuring rules apply.	_____	_____	_____
309) Determine if the plan contains a cash or deferred arrangement.	_____	_____	_____
310) Determine if the plan is integrated with social security or railroad retirement, and if so, determine that permitted disparity requirements have been met.	_____	_____	_____
311) Determine if the plan was involved in a merger or consolidation into another plan or an asset or liability transfer during the plan year. If so:			
.1) Determine the name of the other plan(s) involved, the EI number of the sponsor(s) and the plan number(s); and	_____	_____	_____
.2) Determine whether Form(s) 5310-A was filed.	_____	_____	_____
312) Determine if the plan was top-heavy at any time during the last five plan years:			
.1) Determine whether key employees have been properly identified.	_____	_____	_____
.2) Determine whether the family attribution rules have been applied properly.	_____	_____	_____
.3) If the plan is top-heavy, determine whether top-heavy minimum benefit provisions and top-heavy vesting requirements have been applied properly.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1998 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
313) Determine that annual compensation of each participant taken into account does not exceed current year limitation.	_____	_____	_____
314) Determine if the employer/sponsor maintains other qualified pension benefit plans.	_____	_____	_____
315) Determine if the plan is a master, prototype or regional prototype plan.	_____	_____	_____
316) Determine the number of participants as follows:	_____	_____	_____
.1) Fully vested, partially vested and non-vested.	_____	_____	_____
.2) Retired or separated receiving benefits or entitled to future benefits.	_____	_____	_____
.3) Deceased participants whose beneficiaries are receiving or are entitled to receive benefits.	_____	_____	_____
.4) Participants with account balances.	_____	_____	_____
.5) Participants who terminated employment before fully vested.	_____	_____	_____
400) REPORTING FINANCIAL ACTIVITY			
ALL PLANS			
401) Determine if the plan generates \$1,000 or more of unrelated business income and must file Form 990T. Inquire whether unrelated business income has been earned by a pass-through entity in which the plan has invested.	_____	_____	_____
402) Determine if the plan is required to file information returns for distributions, retirement pay or P.S. 58 costs.	_____	_____	_____
PENSION BENEFIT PLANS ONLY			
403) Prepare a reconciliation of contributions made to the plan, deductions claimed on the sponsor's income tax return, and contributions recorded by the plan according to the trustee's records.	_____	_____	_____
404) Identify any contributions (designated as contributions for the plan year) made after the plan year end, but before the due date of the employer's income tax return, including extensions of time to file.	_____	_____	_____
405) In the case of a defined benefit plan:			
.1) Review Schedule B and determine whether there is a funding deficiency, and if so, advise the plan sponsor.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1998 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Confirm that the contributions shown on Schedule B correspond to the contributions made for the plan year.	_____	_____	_____
406) Prepare Form 5330 (relating to excise tax) if there is an accumulated funding deficiency or a nondeductible contribution to a qualified plan.	_____	_____	_____
407) Determine if there has been any reversion of plan assets to the employer, and if so, prepare Form 5330.	_____	_____	_____
408) Determine whether immediate distributions to plan participants and beneficiaries are in compliance with the \$3,500 (\$5,000 for plan years beginning after August 5, 1997) <i>de minimis</i> rules and related plan provisions.	_____	_____	_____
409) Determine that contributions made or benefits accrued during the plan year are in compliance with I.R.C. § 415 limits.	_____	_____	_____
410) Determine if the plan has made distributions of benefits to participants and beneficiaries as prescribed by the minimum distribution requirements of I.R.C. § 401(a)(9).	_____	_____	_____
411) Determine that, in the case of plan distributions with respect to married participants, the joint and survivor annuity requirements and preretirement survivor annuity requirements of I.R.C. §§ 401(a)(11) and 417 have been met.	_____	_____	_____
412) Determine that written explanations regarding rollover-eligible distributions have been provided in accordance with I.R.C. § 402(f).	_____	_____	_____
413) Determine that income tax withholding requirements of I.R.C. § 3405 (and applicable state or local income tax withholding requirements) have been met with respect to distributions not rolled over to an eligible retirement plan, and that Form 945 has been filed.	_____	_____	_____
414) Determine if refunds of contributions were required to pass the ADP/ACP test.	_____	_____	_____
.1) If so, determine if they were made within two and one half months after the close of the plan year.	_____	_____	_____
.2) If not, prepare Form 5330.	_____	_____	_____
500) PENALTIES			
501) Determine the correct due date of the return. Failure to timely file a return is subject to a penalty of \$25 per day (up to \$15,000).	_____	_____	_____
502) Consider other applicable penalties, such as:			

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1998 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.1) Failure to file a registration statement (Schedule SSA) (\$1 per day up to \$5,000).	_____	_____	_____
.2) Failure to file an actuarial statement (Schedule B) (\$1,000).	_____	_____	_____
.3) Failure to file a complete return, such as failure to complete all applicable information (up to \$1,000 per day).	_____	_____	_____
.4) Failure to report a change of plan status (\$1 per day up to \$1,000).	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Consider notifying the Plan Administrator of requirements related to:			
.1) Distribution to participants of an appropriate summary annual report.	_____	_____	_____
.2) The availability of the current summary plan description and distribution to participants on a timely basis.	_____	_____	_____
.3) Preparation and distribution of the statements of participants' accrued benefits.	_____	_____	_____
.4) Preparation and distribution of statements of deferred vested benefits to separated employees.	_____	_____	_____
602) If the employer maintains a profit-sharing plan or stock bonus plan and has not made the maximum contribution for each year, calculate the unfunded pre-1987 contribution carryforward amount.	_____	_____	_____
603) In the case of a qualified plan with loan provisions, ascertain that all loans were made in accordance with plan provisions, and in particular were in compliance with:			
.1) the five year requirement (I.R.C. § 72(p)(2)(B));	_____	_____	_____
.2) the dollar limitations (I.R.C. § 72(p)(2)(A));	_____	_____	_____
.3) the quarterly amortization requirement (I.R.C. § 72(p)(2)(C));	_____	_____	_____
.4) the spousal consent requirement (I.R.C. § 417(a), ERISA § 205(c), Reg. § 1.401(a)-20, Q&A 24);	_____	_____	_____
.5) the reasonably equivalent availability requirement (I.R.C. § 4975(d)(1)(A), ERISA § 408(b)(1)(A));	_____	_____	_____
.6) the reasonable rate of interest requirement (I.R.C. § 4975(d)(1)(D), ERISA § 408(b)(1)(D)); and	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
1997 - FORM 5500 SERIES

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.7) the adequate security requirement (I.R.C. § 4975(d)(1)(E), ERISA § 408(b)(1)(E)).	_____	_____	_____
604) Determine that plan loans were not made to sole proprietors, certain partners or shareholders unless the nondiscrimination requirements are met. (I.R.C. § 4975)	_____	_____	_____

COMMENTS OR PLANNING

MARKET SEGMENT SPECIALIZATION PROGRAM AUDIT TECHNIQUE GUIDE

INTRODUCTION

Market Segment Specialization Program Audit Technique Guides were developed by the Internal Revenue Service for reference by revenue agents and tax auditors. These guides contain examination techniques, common and unique industry issues, business practices and other information.

Guides currently available are listed subsequently. Guides available through the internet are indicated by (I) and are available at:

Internet address: http://www.access.gpo.gov/su_docs

E-mail address: gpoaccess@gpo.gov

Guides currently in print are available from the Superintendent of Documents and indicated by (S). These may be obtained as follows:

Physical address: Superintendent of Documents
P. O. Box 371954
Pittsburgh, PA 15250-7954
(202) 512-1800 (9 a.m. - 4 p.m., M-F, EST)
(202) 512-2250 - fax (24 hours a day)

Review and Revision: Items bearing the (*) notation are currently being revised or reviewed prior to issuance. All other documents are presently available from the Internal Revenue Service.

Air Charters (I) (S)	Child Care
Alaskan Commercial Fishing	Citrus Industry
- Catcher Vessels (I) (S)	* Coal Mining (Excise)
- Fish Processors and Brokers (I) (S)	* Commercial Banking
Alternative Minimum Tax	Construction, General Building Contractor
Architects (I) (S)	Construction Industry
Artists and Art Galleries (I)	Cooperative Housing Corp.
Auto Body and Repair Industry (I) (S)	Eating Places/Restaurants/Bars (S)
* Bail Bond Industry	Electronic Components
Beauty Shops/Barber Shops (I) (S)	Emergency Care Clinics
Bed and Breakfasts (I) (S)	Employment Tax - Pizza Driver
* Car Washing and Detailing	Entertainment Industry:
Casino Gambling	- Contracts - Audit Applications
Cattle Auction Barns	- Foreign Athletes & Entertainers
Check Cashing	- Important 1040 Issues (S)

- Motion Pictures/Television
- Music (I) (S)
- Theater - Live Performances
- Extended Warranty Companies
- * Farming - Specific Issues
- Federal Excise Tax, Coal Mining
- Foreign Tourism
- * Furniture Manufacturing
- Garment Contractors
- Garment Manufacturing (I)
- Gas Retailers (I) (S)
- Grain Farmers (S)
- Grocery Stores
- * Hardwood Timber Industry
- Health Care
- Independent Used Car Dealers
- Indian Assistance
- Insurance Agencies
- Intermodal Industry (Transport Containers)
- Jewelry Dealers
- Laundromats
- Life Insurance
- Low Income Housing Credits
- * Manufacturing
- Masonry and Concrete
- Ministers (I) (S)
- Mobile Food Vendors (I) (S)
- Mortuaries (S)
- Nursing/Rest Homes
- Oil and Gas Industry (I)
- Parking Lots
- Passive Activity Losses (I) (S)
- Pawn Shops
- Pizza Restaurants (I) (S)
- * Placer Mining
- Plastic Surgeons
- Port Project (I) (S)
- Poultry
- Recycling
- Reforestation (S)
- Rehabilitation Credit
- * Retail Liquor Stores
- RTC Project (Forgiveness of Debt) (S)
- Scrap Metal
- Seafood Purchases
- Selling Door to Door/Telephone
- Taxicabs (I) (S)
- Tobacco Industry (I)
- Tour Bus Industry (I)
- Travel Agencies
- Trucking Industry (I) (S)
- W-8 Unreported Income
- Wine Industry (S)

SAMPLE IRS CORPORATE AUDIT FORMAT

INTRODUCTION

The following questions are samples of those that may be asked during the interview and examination process of tax returns. They are not intended to be all inclusive. Tax examiners for the Internal Revenue Service are encouraged to use their own judgment. As a result, the scope of their examination may be expanded depending on the responses to these general questions. The purpose of these sample questions is to assist in the preparation for an examination. It is advisable that the tax practitioner determine the intent of the questions and prepare accordingly.

I. AGENT'S NOTIFICATION TO TAXPAYER/REPRESENTATIVE

Appeal Rights (Pub 1)
Privacy Act Notice (Pub 609)

II. INFORMATION THE REVENUE AGENT MAY REQUEST FROM THE TAXPAYER/REPRESENTATIVE

GENERAL:

Tax returns previously audited and results
Telephone numbers of corporate office and representative office
Properly executed Power of Attorney
Verification of TIN per return
Verification of address per return
Name of tax return preparer and fee charged
Extent services provided by preparer
Copies of tax returns from open tax years not under audit
Copies of externally and internally prepared financial statements
Copies of most recent IRS determination letter for all qualified retirement plans
Copies of any amendments or tentative carrybacks filed in the last three years
Corporate minute book and stock records
Currency Transaction Reports (Form 8300)

CORPORATE OFFICER(S) AND SHAREHOLDERS(S):

Name(s)
Title(s)
Ownership %(s)
Recent changes in ownership
Copies of shareholder(s) individual tax returns for period under audit
S corporation shareholder basis computations.

SAMPLE IRS CORPORATE AUDIT FORMAT

III. QUESTIONS THE REVENUE AGENT MAY ASK THE TAXPAYER/REPRESENTATIVE

RELATED ENTITIES:

Does the corporation own stock in any other closely held corporation(s)?

Do any shareholders own stock in any other closely held corporations(s)?

Does the corporation own an interest in any other closely held business entity (e.g., partnerships and joint ventures)?

BUSINESS HISTORY:

What are the business activities of the corporation?

How long has the corporation been in operation?

When was the corporation formed - was it a new business or was it a continuation of a business conducted in another form?

What was contributed to capital at incorporation?

What are the duties of each officer and shareholder?

Does the corporation conduct operations at any location other than the address on the return? If yes, describe.

Have there been any unusual or extraordinary events during the last three years (e.g., reorganizations, acquisitions or dispositions, decline in income due to casualty, loss of prime supplier or customers, or other economic business conditions)?

Does the corporation anticipate any significant expansion or addition of capital improvements?

Has there been a major expansion or remodeling of the corporate building and/or facilities in recent years?

Are there any legal actions pending against the corporation?

What is the corporation's policy relative to dividends?

Has the corporation engaged in any bartering activity?

Did the corporation pay any kickbacks either directly or indirectly?

CORPORATE TRANSACTIONS:

Are sales cyclical?

Who are the corporation's major suppliers?

Who are the corporations's major customers?

Does the corporation extend credit? If so, what are the terms?

Does the corporation offer discounts? If so, how are they recorded?

Does the corporation purchase goods on credit?

Does the corporation normally take advantage of discounts? If so, how are they recorded?

Did the corporation sell any assets during the year under examination?

SAMPLE IRS CORPORATE AUDIT FORMAT

Are all fixed assets shown on the corporate books still in service? If not, what was the disposition of the asset(s)?

PAYROLL AND RELATED:

What are the company's payroll procedures (e.g., separate bank account, outside agency)?

How is the compensation of the officers and shareholders determined?

What method(s) of compensation does the corporation use (e.g., salary, bonus, commission)?

What is the company's policy relative to bonuses?

How many full time and part time employees does the corporation employ?

Have any employees performed personal services for any officers or shareholders?

To what extent does the corporation use contract labor?

Have all required information returns been filed?

Are any immediate family members or close relatives of the officers or shareholders employed by the corporation?

What fringe benefits are provided to the employees (e.g., health insurance, life insurance, reimbursed travel and moving expense, discount on purchases, profit sharing plan, 401(K) or other retirement plan qualified or unqualified, medical reimbursement plan, other)?

Do the fringe benefits provided to the rank and file employees differ from those provided for shareholders and officers?

Has the corporation filed all required retirement plan returns?

Has the corporation filed all applicable federal employment tax returns?

TRAVEL AND ENTERTAINMENT:

What is the company's policy regarding travel and entertainment reimbursement?

Does the corporation provide shareholders, officers, and/or related family members with any of the following:

- Credit cards?
- Club dues?
- Club memberships?

VEHICLES:

Does the corporation own or lease any automobiles, trucks, RVs, airplanes, boats, or other vehicles?

How are these vehicles used in the business?

Are vehicle usage logs maintained?

Does the corporation restrict the use of these vehicles?

How does the corporation account for personal use of company vehicles?

Does the corporation own any trucks that are subject to the highway use tax?

SAMPLE IRS CORPORATE AUDIT FORMAT

BANKING

Where does the corporation maintain bank accounts (e.g., checking, savings, certificates of deposit, foreign accounts, money market investments)?

What is the purpose of each account?

What loans were outstanding during the tax year? Describe the purpose(s), terms, and activity for each.

INVENTORY:

What method of valuation does the corporation use?

If required, is the corporation in compliance with section 263A?

How often is physical inventory taken and by whom?

Does the corporation maintain perpetual inventory records?

Is the cost system integrated into the accounting system?

Do any employees, officers, or shareholders make personal withdrawals from inventories?

To what extent is the company's inventory insured and with whom?

Does the company utilize receiving reports?

How are returned goods handled?

What was the basis for the write down of the company's inventory?

What length of time does it take to process goods from start to finish?

ACCOUNTING SYSTEM:

What type of books and records are maintained (e.g., general ledger, journals, subsidiaries, etc.)?

Who is responsible for the following activities:

- General bookkeeping?
- Cash receipts?
- A/R?
- A/P?
- Recording sales?
- Purchases?

Who is responsible for writing and endorsing checks? Are multiple signatures required?

What method of accounting is used?

Has there been a change in the company's accounting method within the last three years?

INTERNAL CONTROLS:

How are cash sales handled?

Who opens the mail?

Who reconciles the corporate bank accounts?

Who makes the deposits?

SAMPLE IRS CORPORATE AUDIT FORMAT

How often are deposits made?

What percentage of receipts are deposited?

Does the corporation keep any large amounts of cash on hand?

What percentage of the company's income is received in each of the following forms:

- Checks?
- Cash?
- Charges?
- Other?

At what point are company sales recorded (e.g., date ordered, date invoice cut, date shipped)?

How is a sale accounted for from initial contact with the customer through completion of the transaction?

How does the company record returns and allowances? Are debit memorandums issued?

Does the company maintain a petty cash fund? If yes,

- What is the normal balance in this fund?
- What type of disbursements are made from the fund?
- Who approves expenditures?
- How is the fund replenished?

How does the corporation record the expenses it incurs through payment?

Does the corporation make any cash expenditures?

What does the company do with voided checks?

What is the corporation's policy with regard to ageing accounts receivable?

What is the company's policy regarding the write off of uncollectible accounts?

Does the corporation have any scrap sales?

Who authorizes the purchase of major items?

What is the corporate policy for expensing vs. capitalizing items?

Did the corporation record any liabilities which were contingent on some future event?

What cut off procedures does the corporation perform at year end regarding accounts receivable, accounts payable, and inventory?

RELATED PARTY TRANSACTIONS:

Did the corporation have any transactions with a corporate shareholder, officer, or family member?

Did the corporation distribute any assets or liabilities to a corporate shareholder, officer or family member?

Were there any loans or advances to or from a corporate shareholder, officer, or family member?

If yes,

- Is there a signed note?
- What interest rate was charged?
- What repayments have been made?

If there were any loans or advances to or from any related entity, were the transactions handled at arms-length?

Are personal funds of shareholders and officers kept separate from corporate funds?

SAMPLE IRS CORPORATE AUDIT FORMAT

MINUTE BOOK:

Is a corporate minute book maintained? If so,

- Is it up to date?
- Who is responsible for updating?
- Do the minutes address pension plan contributions?

Are officers' compensation and bonuses approved in the minutes?

Are loans properly considered and approved in the minutes?

Do the minutes address employee bonuses?

Do the minutes address company expansion?

OTHER QUESTIONS:

Does the tax return include all income earned by the corporation?

After having had time to review the return since contacted by the IRS, is the taxpayer/ representative aware of any additional deductions, erroneous deductions or any omissions of income contained therein?

If this is an S corporation, which shareholders meet the material participation requirements?

IRS EXAMINATION GUIDE

This document is primarily intended for use in Office and Field Income Tax Examinations. Although portions may be applicable, this is not specifically intended for use in examinations of partnerships subject to §§ 6221 - 6233 Consolidated Audit Procedures. Additionally, this should not be construed to be a substitute for professional judgment or serve as a "strategy" guide.

The titles of Revenue Agent and Tax Auditor apply to distinguish IRS personnel as do the terms "audit" and "examination" to differentiate the scope and objective of what may best be considered a law enforcement "procedure." In this document, the term "agent" and "examination" will be used throughout as common terms that may apply to both types of personnel and classes of "procedure."

IRS EXAMINATION GUIDE

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) PRE-EXAMINATION ADMINISTRATION			
101) Determine from client communication or verbal contact the scope of the IRS representative's work which will be one of the following:			
.1) Compliance Check. The procedures will be limited to inspection of forms filed and inquiry related to information return filing(s). Since this does not include the examination of the taxpayer's books and records, the remainder of this guide will, generally, be inapplicable. Be aware of the point at which a compliance check becomes an audit or examination. See forthcoming IRS publication titled " <u>Compliance Check, Audit or Examination</u> " for particulars.	_____	_____	_____
.2) Audit. (Generally, this will encompass review of issues or verification of return items that have been determined before assignment to a tax auditor in an office audit.) Since the scope of an office audit is normally restricted, items generally not inherent to an office audit are subsequently distinguished as field examination items in this Guide.	_____	_____	_____
.3) Examination.	_____	_____	_____
102) If you prepared or were associated with the return being examined:			
.1) Consider whether an independent review by someone not originally associated with the return preparation or review should be performed.	_____	_____	_____
.2) Locate evidence of having provided a copy of the return to the client. This may be requested by the agent.	_____	_____	_____
103) Locate or obtain copies of the following, if you do not already have them:			
.1) A copy of the return for the year being examined, including amended returns.	_____	_____	_____
.2) A copy of the workpapers used to prepare the return.	_____	_____	_____
.3) A copy of the returns, including amended returns, for the year preceding and following the year being examined.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
104) Review the return for the year being audited, including subsequent amended return(s), workpapers, and source documents provided to prepare the return, and determine if there are any errors.	_____	_____	_____
105) Consider reviewing the same information for the year preceding and following the return being audited to determine:			
.1) Whether there are errors related to those return years.	_____	_____	_____
.2) Whether there are carryover related errors that may affect other returns.	_____	_____	_____
106) Review correspondence in your files to determine whether there have been subsequent discoveries of errors or factual information omissions, changes, or corrections.	_____	_____	_____
107) In the event an error(s) is found, quantify the "net" potential:			
.1) Tax effect.	_____	_____	_____
.2) Client penalty and interest.	_____	_____	_____
.3) Preparer penalty amount.	_____	_____	_____
108) In conjunction with Item 107, determine whether it is in the firm's and the client's best interest to represent the client in this matter.	_____	_____	_____
109) In conjunction with Item 108, if you will continue representing the client, obtain client agreement as to how errors should be dealt with and a written conflict of interest waiver.	_____	_____	_____
110) Determine, if possible at this point, if there are any industry or tax issues to be raised for which you do not possess adequate experience or expertise. If so:			
.1) Determine whether needed research can be done "in house."	_____	_____	_____
.2) Consider retaining another practitioner with the requisite capability to assist you.	_____	_____	_____
.3) Consider withdrawing from the engagement.	_____	_____	_____
111) Determine whether an original Form 2848, Power of Attorney, for the year being examined and the year preceding and following, has been filed with the IRS Service Center POA Unit where the return was originally filed and the Revenue Agent assigned to the examination.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
112) Retain at least one copy of the power of attorney with original signatures.	_____	_____	_____
113) Consider obtaining and holding, until needed, Powers of Attorney for the same tax periods for the following:			
.1) Payroll and excise tax returns, if any, required to be filed or that have been filed by the taxpayer.	_____	_____	_____
.2) Gift Tax Return, Form 709.	_____	_____	_____
114) For field examinations only, consider obtaining and holding, until needed, Powers of Attorney for the same tax periods for the following:			
.1) Each taxpayer that would be deemed to be a related party or affiliated group member with respect to the taxpayer being audited.	_____	_____	_____
.2) Each officer and officer stockholder listed on Form 1120 or 1120S Schedule E, if the taxpayer being audited is a corporation.	_____	_____	_____
.3) Each managing partner or member if the taxpayer being audited is a partnership or limited liability company.	_____	_____	_____
.4) Each partnership or corporation in which the taxpayer has more than a 10% interest.	_____	_____	_____
115) Determine whether documents exist that are subject to privilege of confidentiality, and consider appropriate treatment. (IRS 1998)	_____	_____	_____
200) PRE-EXAMINATION PLANNING AND ORGANIZATION			
201) Consider confirming, through an engagement letter, the role you will play in the examination, i.e.:			
.1) As the primary taxpayer representative in the examination.	_____	_____	_____
.2) As "backup" and technical support with primary responsibility for representation belonging to another party such as the taxpayer, an employee of the taxpayer, or another, such as their attorney.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
202) For an office audit, the identification of documentation will be related to predetermined issues and, in some cases, has been specifically identified by the tax auditor. In examinations where that has not been ascertained, determine location, availability and condition of, and be prepared to provide upon request the following client documents:			
.1) Bank statements for the year being examined and the year preceding and following including deposit slips, cancelled checks, copies of cashier checks, withdrawal advices, and wire transfers. This should be obtained for all taxpayer accounts including checking, savings, money market or other investment accounts, and accounts for which the taxpayer has a line of credit.	_____	_____	_____
.2) General ledger, if any, including all ancillary journals, chart of accounts, and year end adjusting journal entries.	_____	_____	_____
.3) For a field examination, consider providing the following:			
.a) Workpapers (or tax grouping sheets) used to prepare the return that reconcile the line items on the return to the financial statements and trial balance.	_____	_____	_____
.b) A reconciliation of book and tax income.	_____	_____	_____
.c) A reconciliation of Schedule M-1 "income per books" to financial statement income, if different.	_____	_____	_____
.d) Adjusting entries prepared by independent accountants.	_____	_____	_____
.e) Schedule of year end accruals.	_____	_____	_____
.f) Schedule of "other current assets" and "other current liabilities."	_____	_____	_____
.g) Depreciation schedule.	_____	_____	_____
.h) Calculation of ending inventory, including § 263A calculations.	_____	_____	_____
.i) Record retention agreement for computerized records with the IRS.	_____	_____	_____
.j) A description of the system of internal controls.	_____	_____	_____
.4) Documentation related to the following income or deduction items:			
.a) Taxes and licenses.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.b) Legal and professional.	_____	_____	_____
.c) Charitable contributions.	_____	_____	_____
.d) Mortgage and other interest deductions.	_____	_____	_____
.e) Business travel.	_____	_____	_____
.f) Meals and entertainment.	_____	_____	_____
.g) IRA or employee benefit plan contributions.	_____	_____	_____
.h) Barter transactions.	_____	_____	_____
.i) Foreign sourced income.	_____	_____	_____
.j) For an individual taxpayer, provide support for exemptions claimed.	_____	_____	_____
.k) Sales contracts, receipts or other documentation for the purchase or sale of business or personal property during the year.	_____	_____	_____
.l) Purchases of materials and supplies included in cost of sales.	_____	_____	_____
.m) Purchase invoices, receipts, and shipping documents related to the regular purchase and sale of merchandise or services in the normal course of business.	_____	_____	_____
.n) All types of sales and promotional discounts.	_____	_____	_____
.o) Copies of sales tax returns filed by the taxpayer for the year being audited.	_____	_____	_____
.p) Copies of excise tax returns filed by the taxpayer for the year being audited.	_____	_____	_____
.q) Insurance policies in effect during the year which may include health, life, accident, general liability, workers compensation, and auto and property coverage.	_____	_____	_____
.r) Lease agreements in force during the period under examination.	_____	_____	_____
.s) Payroll journal and copies of federal and state payroll tax returns, including Form 940 and state and local equivalent unemployment tax returns, for all quarters of the year being audited and the quarter preceding and following the year	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
being audited, if applicable, and documentation of associated tax payments.	<hr/>	<hr/>	<hr/>
.t) Copies of loan documents for loans outstanding during the year.	<hr/>	<hr/>	<hr/>
.u) For a corporation or limited liability company, documentation related to each officer, shareholder, or member for the following:			
(i) Accounts receivable.	<hr/>	<hr/>	<hr/>
(ii) Loans.	<hr/>	<hr/>	<hr/>
(iii) Compensation accrued and paid.	<hr/>	<hr/>	<hr/>
.v) Logs or other documentation to support business use of listed property.	<hr/>	<hr/>	<hr/>
.w) Determination of bad debts including proof of collection process (e.g. collection demands by attorney or collection agency).	<hr/>	<hr/>	<hr/>
.x) Repairs and maintenance.	<hr/>	<hr/>	<hr/>
.5) Copies of state and local tax returns for the year being audited and documentation of associated tax payments.	<hr/>	<hr/>	<hr/>
.6) Copies of Forms 1096 and 1099 filed for the year being audited.	<hr/>	<hr/>	<hr/>
.a) Determine whether these agree to related records.	<hr/>	<hr/>	<hr/>
.b) Determine whether independent contractor agreements exist and, if so, consider obtaining copies.	<hr/>	<hr/>	<hr/>
.c) Proof that payments were timely made.	<hr/>	<hr/>	<hr/>
.7) Copies of Forms W-3 and W-2 filed for the year being audited.	<hr/>	<hr/>	<hr/>
.a) Determine whether these agree to related records.	<hr/>	<hr/>	<hr/>
.8) If qualified employee benefit plans exist, obtain:			
.a) Copies of series 5500 forms filed for the year being audited.	<hr/>	<hr/>	<hr/>
.b) The determination letter for each qualified plan.	<hr/>	<hr/>	<hr/>
.c) Proof that payments were timely made.	<hr/>	<hr/>	<hr/>

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.9) Forms 8300 provided or received for cash transactions of \$10,000 or more.	_____	_____	_____
.10) Copies of financial statements, including client prepared forms submitted to bank or other creditor.	_____	_____	_____
.11) If applicable, copies of loan amortization schedules or other information that details and supports the amounts claimed as interest.	_____	_____	_____
.12) Copies of minutes for a corporation or limited liability company (if required by law or the limited liability company's regulations).	_____	_____	_____
.13) With respect to a field examination of a business entity, consider preparation of background information for the agent that provides:			
.a) Current ownership.	_____	_____	_____
.b) Changes in ownership within the last five years.	_____	_____	_____
.c) Reorganizations and acquisitions within the last five years.	_____	_____	_____
.d) Organizational chart.	_____	_____	_____
.e) Results of prior examinations (including copies of prior audit reports).	_____	_____	_____
.f) For S corporation - schedules of shareholder basis and AAA.	_____	_____	_____
.14) Consider the application of taxpayer protections related to trade secrets, computer software and source code. (IRS 1998)	_____	_____	_____
203) If the records listed under Item 202 had not previously been reviewed in connection with preparing the tax return, consider scanning or reviewing to determine that there are no inconsistencies in the return.	_____	_____	_____
204) If any of the aforementioned are not available or usable, determine what can be done to restore or recreate the original documents in either "paper" or electronic form.	_____	_____	_____
.1) If microfilm records are provided, see Rev. Proc. 81-46, 1981-2 C.B. 40 for form and content.	_____	_____	_____
.2) If computer records are provided, and the taxpayer has assets of \$10,000,000 or more, see Rev. Proc. 91-59 for form and content.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Determine a firm deadline for when the records can be produced.	_____	_____	_____
205) Should the client be unable to recreate or obtain copies of the missing documents:			
.1) Consider providing approximations through secondary sources and/or collateral evidence under Internal Revenue Manual (IRM) 4244 and Policy Statement P-4-39.	_____	_____	_____
.2) Consider offering oral statements and affidavits under IRM 403(25).	_____	_____	_____
.3) Determine a firm deadline for when the substitute can be produced.	_____	_____	_____
206) Determine if the client has been notified of summons being served on any third party. (IRS 1998) If so:			
.1) Determine if legal counsel has been retained.	_____	_____	_____
.2) If legal counsel has not been retained inform the client of its entitlement to a motion to quash and discuss retention of counsel.	_____	_____	_____
207) If you had not previously spoken with the examining agent, contact him or her to determine:			
.1) If this is a specialized audit under the following:			
.a) For individuals - "financial status" type audits.	_____	_____	_____
.b) For all taxpayers -			
(i) International Enforcement Program	_____	_____	_____
(ii) Industry Specialization Program	_____	_____	_____
(iii) Non-filer Program	_____	_____	_____
(iv) Return Preparer Program	_____	_____	_____
(v) Classification Settlement Program	_____	_____	_____
.c) For corporate taxpayers only - Coordinated Examination Program.	_____	_____	_____
.2) If determined to be a specialized audit, consider reviewing relevant portions of the Internal Revenue Manual and, if applicable, Market Segment Specialization Program (MSSP)			

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
and Industry Specialization Program (ISP) papers and handbooks which are listed at XIV-11.	_____	_____	_____
.3) If determined to be a "financial status" audit, discuss with client the retention of legal counsel and ongoing representation. (IRS 1998)	_____	_____	_____
.4) The reason this return was selected for examination.	_____	_____	_____
.5) Issues or particular concerns the agent is aware of at this time. (If unreported income or any other potential for civil fraud or criminal investigation is raised, discuss with client the retention of legal counsel and ongoing representation.)	_____	_____	_____
.6) An appropriate start and completion date for the examination.	_____	_____	_____
.7) That information or documents they wish to inspect at the initial meeting is specified through Form 4564, Information Document Request (IDR) or other written form.	_____	_____	_____
208) Determine what will be the best location to conduct the audit. If:			
.1) An office audit - this should either be the IRS office closest to the taxpayer or its representative.	_____	_____	_____
.2) A field examination - the determination should be based on location of the underlying records and documentation and whether the potential for disruption to the client's business warrants operating out of your office. Generally, this should be done at the CPA's office.	_____	_____	_____
209) Determine if the same issues were examined in either of the two years preceding the audit year with no changes or small tax changes reported. If so, discuss with the agent the potential for suspending the audit on the basis of a "repetitive examination" under IRM 4241 policies or "confining" the scope of the examination to new or different issues from those that have previously been audited. Note: the repetitive examination exception does not apply to a business return or an individual return with a Schedule C or F, scanning of returns in an office audit without questions being asked by the tax auditor, or a compliance check.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
210) Consider applying for repetitive examination treatment where the auditor has surveyed or examined a return of the same taxpayer for any of the three preceding tax periods unless there was an intervening survey or examination by another auditor.	_____	_____	_____
211) If you have missing or unusable records, consider disclosing that information and an alternative timetable, if necessary, in accordance with what you determined under Item 203 or 204.	_____	_____	_____
300) DURING THE AUDIT			
301) For field examinations, establish the following with the agent at the initial meeting:			
.1) If you do not personally know the agent, ask for identification to verify that he/she is not a "special agent."	_____	_____	_____
.2) A place where he/she may work.	_____	_____	_____
.3) Set hours in which he/she will have access to the office and any other relevant items such as parking and transportation and areas that are off-limits, etc.	_____	_____	_____
.4) Identify the primary contact person that the agent will deal with. If possible, a secondary contact with client familiarity should be designated.	_____	_____	_____
.5) Reconfirm the timetable for the audit.	_____	_____	_____
.6) Agree to information and document requests being made in writing on Form 4564, Information Document Request, with mutually agreeable deadlines for production of information that will conform with the prior timetable.	_____	_____	_____
302) Consider requesting that the agent save information requests and questions until they have completed the review of information you provided (unless the issue or information is so significant that it impedes further work by the agent).	_____	_____	_____
303) Maintain a chronological log or other record of all records, files, and workpapers provided to the agent. Consider having agent provide written indication for receipt of documents.	_____	_____	_____
304) Obtain a copy of items the agent photocopies. In the case of a field examination, consider designating a copy person through whom the agent may make his/her copy requests. (You should continue to review and approve these copies prior to their release.)	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
305) Consider discussing the manner in which the agent would prefer the records and information be organized. (At a minimum, all records agreed to be provided should be assembled in good order and available at the agreed upon time.)	_____	_____	_____
306) If the agent has requested a personal interview, determine the reason that the agent feels this is justified. (Under the Taxpayer Bill of Rights, taxpayers are not required to appear for an interview unless a summons has been issued.)	_____	_____	_____
.1) Consider whether you can provide (or obtain) any information required without the need for the agent's personal interview with the taxpayer and so inform the agent.	_____	_____	_____
.2) Consider if justification for the interview warrants retention of legal counsel.	_____	_____	_____
.3) If an interview is to be held, request that it be conducted prior to the start of the audit.	_____	_____	_____
.4) Review with the client questions to expect and appropriate responses.	_____	_____	_____
.5) Consider recording the interview. Notice under § 7521(a)(1) should be given the IRS agent.	_____	_____	_____
307) Based on previous agreement with the client, consider disclosing to the agent significant and/or obvious errors present in the return.	_____	_____	_____
308) Consider a case transfer:			
.1) Based upon the agent having a conflict of interest with the taxpayer (see IRM 4015.3(2)).	_____	_____	_____
.2) Due to location of taxpayer's current residence.	_____	_____	_____
.3) Due to the location of the taxpayer's current principal place of business.	_____	_____	_____
.4) Due to the location of the taxpayer's books, records and source documents.	_____	_____	_____
.5) Due to the location where the IRS can perform the examination most efficiently.	_____	_____	_____
.6) Due to other factors which indicate that conducting an examination at a particular location could pose an undue inconvenience to the taxpayer.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
309) If a summons is issued during the examination, consider retaining legal counsel on behalf of yourself and recommending that the client retain legal counsel.	_____	_____	_____
310) In order that there be a mutual understanding, request that proposed adjustments be provided in writing and that the agent explain them to you by:			
.1) Showing the relevant factual information.	_____	_____	_____
.2) Providing the mechanical calculations.	_____	_____	_____
.3) Citing or stating the technical authority or basis for the position.	_____	_____	_____
311) Quantify the tax, penalty, and interest associated with:			
.1) Issues on which the agent is correct and to which you agree.	_____	_____	_____
.2) "Non-interpretive" issues that benefit the taxpayer.	_____	_____	_____
.3) "Interpretive" issues on which the IRS and taxpayer may disagree.	_____	_____	_____
312) If there has been a protracted amount of time between contacts by the agent:			
.1) Determine whether the case has been suspended under IRM 4559.11 by the National Office pursuant to pending litigation on a relevant issue.	_____	_____	_____
.2) Determine if the agent might have referred the case for possible criminal investigation.	_____	_____	_____
313) If the case has been suspended, consider whether you should concede the issue and file a claim for refund.	_____	_____	_____
314) Evaluate the potential for settling the controversial or interpretive issues and costs to pursue.	_____	_____	_____
315) Consider the effect that tolling statutes of limitation may have with respect to the audit.	_____	_____	_____
316) If the agent requests that a series 872 Form, Consent to Extend the Time to Assess Tax, be given, evaluate the consequences of not consenting.	_____	_____	_____
317) Evaluate the effect of taxpayer concessions on subsequent tax years.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
318) Discuss the proposed adjustments and examination results with the client and obtain agreement and approval for settlement of issues and amount.	_____	_____	_____
319) Request a follow-up meeting with the agent to provide a response to the proposed adjustments.	_____	_____	_____
320) Consider if it is in the client's best interest to provide the agent with a written response to support your position(s).	_____	_____	_____
321) If discussions with the agent are not productive with respect to reasonable positions, consider requesting a meeting with the agent and his/her group manager to resolve the issues at the examination level.	_____	_____	_____
322) Request that a draft of the Revenue Agent's Report (RAR) be provided to confirm that the issues are consistent with prior discussions and agreement.	_____	_____	_____
323) If discrepancies exist with the RAR, bring them to the attention of the agent prior to his/her submission for review, preferably, in writing.	_____	_____	_____
400) WRAP UP AND CONCLUSION			
401) Review the "issued" Revenue Agent's Report for accuracy and consistency.	_____	_____	_____
402) Consider whether Form 870, Waiver of Restrictions on the Assessment and Collection of Deficiency in Tax and Acceptance of Overassessment, should be executed:			
.1) For all adjustments, or	_____	_____	_____
.2) For some of the adjustments.	_____	_____	_____
403) Consider preparing a memorandum outlining issues, associated outcome, recommendations to be made to the client, and summation of the results of the audit.	_____	_____	_____
404) Review the RAR and recommended actions related to Form 870 with the client.	_____	_____	_____
405) If changes are proposed with which the taxpayer disagrees, consider communicating alternative courses of action, associated costs, and probability of success to the client.	_____	_____	_____
406) If changes should be implemented by the client as a result of the examination, consider communicating recommended actions.	_____	_____	_____

IRS EXAMINATION GUIDE

COMMENTS OR EXPLANATIONS

SUBCHAPTER S RELATED ELECTIONS

Subchapter S Related Elections

Election	Manner of Making Election	Date for Making Election	Authority
1. Election of S corporation status.	Form 2553 with signed consent of officer of corporation and of each shareholder.	Any time during preceding taxable year or by the 15th day of the third month of the taxable year.	Code Section 1362(a) and (b); Reg. Section 1.1362-6(a).
2. Election to treat a wholly-owned subsidiary as a qualified subchapter S subsidiary ("QSub").	Form 966 signed by officer of parent S corporation.	For a prospective election, election may be made at any time. For a retroactive election, within 75 days of the desired effective date.	Code Section 1361(b)(3); Notice 97-4.
3. Election to treat a trust as a qualified subchapter S trust ("QSST").	On Form 2553 or separate statement. Beneficiary must consent.	Within two months and 15 days after the first day on which the trust must qualify as a QSST.	Code Section 1361(d)(2)(D) and Reg. Section 1.1361-1(j)(6). See Reg. Section 1.1361-1(j)(6)(iv) regarding a protective QSST election available for certain grantor trusts.
4. Election to treat a trust as an electing small business trust ("ESBT").	Separate election statement. Trustee must consent to election.	Within two months and 15 days after the first day on which the trust must qualify as	Code Section 1361(e)(3); Notice 97-12.
5. Election to convert a QSST to an ESBT.	Separate election statement. Consent of beneficiary and trustee required.	Any time within the 12 month period prior to desired effective date or within two and one half months after desired effective date.	Rev. Proc. 98-23.

Election	Manner of Making Election	Date for Making Election	Authority
6. Election to convert an ESBT to a QSST.	Separate election statement. Consent of beneficiary and trustee required.	Any time within the 12 month period prior to desired effective date or within two and one half months after desired effective date.	Rev. Proc. 98-23.
7. Successive income beneficiary affirmative refusal to consent to QSST election.	Separate election statement. Consent of successive income beneficiary required.	Within two and one half months after the date on which the successive income beneficiary becomes the income beneficiary.	Code Section 1361(d)(2); Reg. Section 1.1361-1(j)(10).
8. Revocation of S corporation election.	Separate election statement. Consent of corporate officer and shareholders owning more than 50 percent of the corporation's outstanding stock required.	Any time on or before desired effective date; within first two and one half months of tax year to be retroactive to beginning of tax year.	Code Section 1362(d)(1); Reg. Section 1.1362-2(a) and 1.1362-6(a)(3).
9. Recission of revocation of S corporation election.	Separate election statement. Consent of each person who consented to revocation is required. In addition, the consent of each person who became a shareholder after the revocation was made must consent.	Any time prior to the revocation becoming effective.	Reg. Section 1.1362-2(a)(4) and 1.1362-6(a)(4).

Election	Manner of Making Election	Date for Making Election	Authority
10. Election to allocate income during S termination year using other than pro rata allocation.	Separate election statement. Officer of corporation, each shareholder during S short year and each shareholder as of the first day of the C short year must consent.	Attach to tax return for the C short year.	Code Section 1362(e)(3); Reg. Section 1.1362-3(b) and 1.1362-6(a)(5).
11. Elective ordering rule for adjustments to basis.	Separate election statement.	Attach to shareholder return. Once election is made, IRS permission is required to change.	Reg. Section 1.1367-1(f).
12. Election to distribute earnings and profits first.	Separate election statement signed by officer of corporation. All affected shareholders must consent.	Attach to timely filed original or amended S corporation return.	Code Section 1368(e)(3); Reg. Section 1.1368-1(f)(2) and (5).
13. Election to make a deemed dividend.	Separate election statement signed by officer of corporation. All affected shareholders must consent.	Attach to timely filed original or amended S corporation return.	Reg. Section 1.1368-1(f)(3) and (5).
14. Election to forego previously taxed income.	Separate election statement signed by officer of corporation. All affected shareholders must consent.	Attach to timely filed original or amended S corporation return.	Reg. Section 1.1368-1(f)(4) and (5).
15. Election to terminate year for purposes of allocating S corporation income in the event of a qualifying disposition.	Separate election statement signed by officer of corporation and consented to by all affected shareholders.	Attach to timely filed original or amended S corporation return for the year in which the qualifying disposition occurred.	Reg. Section 1.1368-1(g).

Election	Manner of Making Election	Date for Making Election	Authority
16. Election to distribute earnings and profits first during post-termination transition period ("PTTP").	Separate election statement signed by officer of corporation and consented to by all shareholders receiving distributions during the PTTP.	Attach to C corporation return for the taxable year in which the PTTP ends.	Code Section 1371(e)(2); Temp. Reg. Section 18.1371-1.
17. Election to terminate year for purposes of allocating S corporation income upon the complete termination of a shareholder's interest.	Separate election statement signed by officer of corporation and consented to by all affected shareholders.	Attach to timely filed original or amended S corporation return for the year in which the shareholder's interest terminated.	Code Section 1377(a)(2); Reg. Section 1.1377-1(b).
18. Election to use other than a required tax year.	Form 8716.	File by the earlier of the 15th day of the fifth month that includes the first day of the tax year the election will be effective, or the unextended due date of the income tax return for the tax year resulting from the election.	Code Section 444; Temp. Reg. Section 1.444-3T.
19. Termination of election to use other than a required tax year.	Statement with return for the short period resulting from the termination of the election to use other than a required tax year.	Due date of timely filed return for the short period resulting from the termination of the election to use other than a required tax year.	Temp. Reg. Section 1.444-1T(a)(5).

1998 GUIDES BY STATE AND LOCAL TAXATION COMMITTEE

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STATE AND LOCAL TAX PRACTICE GUIDES

Introduction

This guide should provide tax practitioners with information they should be aware of and consider when preparing individual and corporation state tax returns. The laws and policies of each state should be verified for application to specific cases. It is not authoritative and should not be relied upon for a specific taxpayer. Practitioners need to research issues identified in this checklist.

Acknowledgements

The State and Local Tax Practice Guides and Checklists were developed by the following members of the State and Local Taxation Committee of the Tax Division of the American Institute of Certified Public Accountants:

State and Local Taxation Committee (1997-98)

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UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

We hope this publication is informative. If you have any comments or additional items or suggestions for next year's state tax return preparation guide/checklist, please fax your comments to Eileen Sherr at 202-638-4512, or send an e-mail message to Esherr@AICPA.org.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

ALABAMA

1. Alabama allows a federal income tax deduction for regular tax; however, federal AMT tax is not deductible.
2. For corporate apportionment purposes, the sales factor includes the gross proceeds from the sale of fixed assets, rather than the gain/loss on the sale of fixed assets.
3. For foreign franchise tax purposes, **short-term** debt between brother - sister corporations is excludable from the franchise tax base; however, all long-term debt is includable in the base.
4. Alabama does not impose a limit on the amount of capital loss claimed during any particular year.

ALASKA

1. Multi-state corporations apportion income to Alaska under a "water's edge" apportionment method which is based on domestic operations. Oil and gas corporations apportion income based on worldwide operations.
2. Corporations with oil & gas activities are required to file an Oil & Gas return rather than the standard income tax return.
3. Subchapter S Corporations doing business in Alaska are required to file a return with their federal 1120S attached.
4. The starting point for computing Alaska taxable income for a member of a federal consolidated group is federal taxable income on the consolidated return. Adjustments are then made to arrive at taxable income of the unitary group.

ARIZONA

1. Taxpayers confuse the full combination method of filing with filing a consolidated return. If filing a consolidated return make sure to make a proper election.
2. If reducing taxable income by income not subject to AZ tax, make sure to add back or properly compute expenses related to this nontaxable income.
3. If using state tax credits to reduce AZ tax actually due, accrual basis taxpayers must reduce the deduction claimed for AZ taxes paid.
4. If allocating income to other states, exclude the related property from the apportionment factor.

ARKANSAS

1. Corporations filing a consolidated return must complete a separate AR1100CT and Schedule A, if applicable, for each member with gross income from sources within Arkansas and consolidate the applicable taxable income on a Consolidated Group AR1100CT and attach a copy of the federal return. Each member's Arkansas Business and Incentive Tax Credit may be combined to reduce the consolidated group's total tax liability without separate entity restrictions except for the Arkansas Economic Development Credit.
2. Determine whether the corporation qualifies for any of Arkansas' 12 tax credits.
3. For 1997 and forward, dividends are excluded from Arkansas taxable income if a least 80% of the subsidiary's capital stock is owned by a corporation doing business within Arkansas. Prior law required a 95% ownership test.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

CALIFORNIA

1. Members of a combined unitary group must compute credits and apply the credit carryovers on a separate company basis.
2. Gain or loss on intercompany sales of business fixed assets or capitalized intercompany charges and expenditures between members of a combined group will not be recognized as long as both the seller and the purchaser remain in the combined group and the asset is not sold to outsiders.
3. Intercompany sales and other intercompany revenue items are eliminated in computing the numerator and denominator of the sales factor. Intercompany rent charges are also eliminated from the property factor computation.
4. The immunity provided by Public Law 86-272 is expressly limited to interstate commerce and will not be applied to foreign commerce. Accordingly, analysis for nexus purposes on sales made to foreign jurisdictions should not be established under the parameters of Public Law 86-272.
5. California does not conform to the provisions of Internal Revenue Code Sec. 957. A state adjustment is necessary to eliminate the Subpart F deemed dividend income and to include the actual dividend distributions in income when paid.
6. R&T Section 24344 provides a method for assigning interest expense between apportionable and allocable income.
7. Corporations that are subject to the California franchise tax must include in gross income all interest received from federal obligations. In addition, interest income from state, municipal, or other bonds must also be included in gross income for franchise tax purposes.
8. The State Board of Equalization has held that the Michigan SBT is deductible by all corporations.
9. A combined report is mandatory if two corporations are unitary and the unitary group does business within and without California.

COLORADO

1. Apportionment options: Colorado provides both the MTC three factor or a statutory two factor apportionment method (which eliminates payroll). The election is made on an annual basis.
2. Business v. nonbusiness: Under the two factor statutory apportionment method, all income is considered business.
3. NOLs carried forward can only be offset by income apportioned in the same apportionment method as the method utilized when the NOL was created (i.e., 2 factor NOLs can be used against 2 factor income, etc.)
4. There is no throwback for sales factor purposes under the statutory two factor apportionment method.
5. Definition of members who can be included in a combined report: Required three of six statutory unitary tests for the current tax year and the two prior years.

CONNECTICUT

1. Connecticut's taxable capital base includes the FAS109 deferred tax liability and other "surplus reserves". It is reduced by stock holdings, including treasury stock.
2. Connecticut's property apportionment fraction is measured by average monthly net book value of total tangible property held.
3. The first corporate estimate is due 3/15 (not 4/15) for calendar year corporations.
4. Prior year overpayments may not be applied to estimates until the date that the prior year return is filed.
5. Safe harbor amount for corporate estimates is 100% of prior year income in 1998 and thereafter.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE
CORPORATE TAX RETURNS

CONNECTICUT

6. There is no annualization safe harbor for estimates for 1988 tax year but will be allowed for tax years beginning in 1999.
7. S corporations--corporate income tax is being phased out 1997-2000. For 1997, 90% of net income is taxed, 75% in 1998, 55% in 1999 and 30% in 2000. Net income will not be taxed beginning in 2001. The capital base tax will remain as is through 2000 and will be repealed, effective for tax years beginning in 2001.
8. Dividends received deduction must be reduced by "related expenses".
9. The first \$25,000 of combined return tax savings is added to tax.
10. Numerous tax credits are available.
11. Corporations that derive income not primarily from manufacture, sale or use of tangible personal property can apportion using single (gross receipts) factor.
12. The Commissioner has very broad "Sec. 482-type" powers.
13. S Corporations must file two income tax returns, both due the 15th day of the fourth month following year-end—Forms CT1120S and CT-1120SI

DELAWARE

1. If the corporation is incorporated in Delaware but does not conduct business in Delaware, it is not required to file a Delaware income tax return.
2. Delaware Intangible Holding Company (DIHC) qualifications are outlined in Tit. 30, §1902(b).
3. If a taxpayer has nexus for gross receipts tax, then it will have nexus for income tax.
4. The property factor in the apportionment formula includes beginning of the year rent expense (prior year's capitalized rent expense).
5. The payroll factor in the apportionment formula excludes officer compensation.
6. The receipts factor in the apportionment formula excludes allocable receipts.
7. Allocable income includes rent income, gains/losses from real and depreciable property, and expenses directly associated with the income.
8. Delaware does not allow a deduction for interest paid to affiliated companies.
9. Delaware taxable income is federal taxable income after NOLs.
10. Delaware S corporations are required to withhold and remit income taxes on behalf of all nonresident shareholders at the highest Delaware individual income tax rate.
11. Delaware S corporations are required to complete Sch. A-1 for every resident and nonresident shareholder. Federal Sch. K-1 is not acceptable.
12. C corporations claiming a net operating loss must carry back/forward the federal NOL amount. Delaware has no provision for allowing the carry back/forward of a calculated Delaware NOL.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE
CORPORATE TAX RETURNS

DISTRICT OF COLUMBIA

1. Although S Corporations are treated the same as C Corporations for DC franchise tax purposes, S Corporations are not allowed a net operating loss deduction (NOLD) on its DC Form D20.
2. A corporation that files as part of a federal consolidated return is only allowed a NOLD if it claims a NOLD on its actual federal return for the same tax year.

FLORIDA

1. Emergency Excise Tax Errors: computing the tax on non-ACRS property and failing to claim a credit for tax paid in prior years.
2. Passive income should not be treated as non-business income.
3. There is only one NOL for Florida purposes (i.e., do not calculate a separate NOL for regular and AMT purposes).
4. Certain amounts should not be subtracted from federal taxable income unless specified by statute (i.e., federal research expenditures added back on the federal return).
5. Include apportionment factors from partnerships, even if they are not controlled by the taxpayer.
6. Being exempt under Public Law 86-272 does not necessarily exempt a company from filing a Florida Intangible tax return
7. Intangibles tax return is reported as of January 1st and is due June 30. There is a sliding scale of discount (4% to 1%) if return is filed before June 1. There is a minimum total penalty of 40% if return is filed after June 30th and additional penalties and interest based on further delay in filing.
8. Florida has a business tangible personal property tax return that is due April 1.
9. Corporations operating in Florida must file a profit corporate report and pay a filing fee by May 1.

GEORGIA

1. Initial net worth tax return must be filed for the first year of incorporation even if a short year.
2. Georgia taxpayer must add back state taxes that are measured by net income.
3. Consent to file a consolidated Georgia tax return must be requested annually unless the group's income is 100% Georgia source income, whereby the group must file a consolidated return with Georgia.
4. Replacement property must be located in Georgia for tax free treatment to apply in an exchange or replacement situation.
5. Georgia has several tax credits available to companies doing business in the state, including flow through entities.
6. If taxpayer makes quarterly estimated payments of \$10,000. or more to Georgia, payments should be made via electronic funds transfer.
7. If taxpayer is a party to state contracts, it may subtract 10% of qualified payments to minority subcontractors on state construction projects or \$100,000, whichever is less, per year.
8. All nonresident stockholders of a Georgia S-Corp must execute a consent agreement whereby they agree to pay Georgia income tax on their share of the S-Corp income. This requirement may be eliminated by the S-Corp filing a composite Georgia return. Attach copy of each Form 600S-CA to Form 600S.
9. Distributions from Georgia S-Corps & Partnerships to nonresidents are subject to withholding requirements, with certain exceptions.
10. Georgia doesn't have a throwback rule for domestic corporations.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

HAWAII

1. A combined return vs. a consolidated return should be filed if any subsidiaries within group are not incorporated in HI.
2. The three factor formula is to be used in apportioning business income to Hawaii. If the taxpayer feels that the specific allocation rules do not fairly reflect its activity in Hawaii, then a petition for a different method, including separate accounting is to be filed with the Director of Taxation.
3. If client does business in Hawaii, verify filing of Hawaii general excise and use tax returns.

IDAHO

1. Corporations are required to add back state and local income taxes deduction to federal income to arrive at Idaho income.
2. Net Operating Loss deduction claimed on the federal return must be added back to arrive at Idaho income.
3. Any dividends received deduction claimed on the federal return must be added back to arrive at Idaho income.
4. There is a deduction for donation of technology equipment.
5. \$10 per corporation is charged for the permanent building fund tax.
6. A tax is reported and paid on the corporate return for Idaho compensation of non-resident officers and directors that is not reported to Idaho, if the apportionment factor is 50% or greater.
7. There are credits available for contributions to educational entities and to youth and rehabilitation facilities.

ILLINOIS

1. Certain credits (e.g., ITC, R&D, Training expense credit, etc.) that are often missed are available to taxpayers.
2. Adjustments to the tax base (e.g., foreign dividends, FSC adjustments, etc.) are often missed.
3. Incorrect throwback and numerator computation under Joyce rules. (Note that if the legislature overrides the governor's veto of the bill in the Fall of 1997, for future years the throwback issue may become moot since the proposed law does not have throwback but does use 100% sales apportionment).
4. Taxpayers should be aware of 80/20 exclusions (particularly FSCs and CFCs).
5. If the taxpayer is electing to forgo the Illinois NOL carryback period, check box (a) net to line 1 of Part IV.
7. All taxpayers are allowed a partial credit against the Illinois income tax for Illinois replacement tax paid. Review calculation carefully.

INDIANA

1. Gross receipts used in computing state gross income tax should reconcile to gross receipts on the federal return.
2. Bad debt expense and returns/allowances are overlooked as deductions in computing state gross income tax.
4. Determine whether the tax credit for contributions to Indiana colleges/universities is available.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE
CORPORATE TAX RETURNS

IOWA

1. Iowa allows a corporation to deduct 50% of federal taxes paid or accrued. Review calculation of federal tax for a single return filed in Iowa by a member of a consolidated group.
2. Add back Iowa tax expense on the other additions schedule.
3. Review the definition of non-business income because it is often miscalculated (as it is a very limited concept).
4. The election regarding items in the business activity ratio is binding and must be followed consistently.
5. Separately calculate a separate basis net operating loss while the corporation is doing business in Iowa.
6. Only members of an affiliated group which have Iowa nexus are allowed to be included in an Iowa consolidated return.
7. Income from intangible assets, if considered business income, is required to be included in the calculation of the business activity ratio (i.e., the single-factor apportionment formula).
8. Iowa does not require throwback of sales which are shipped from Iowa to states where a corporate taxpayer is not taxable.
9. Under Iowa's rules, sales of other than tangible personal property are sourced to where the benefit of those services is derived, rather than where the costs to perform the services are incurred.
10. Iowa's research and development credit is refundable.
11. According to regulations, Iowa nexus can be created based solely upon the presence of intangible assets within the state.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE
CORPORATE TAX RETURNS

KANSAS

1. If two or more corporations file federal income tax returns on a consolidated basis, and if each of such corporations derive all of their income and expenses from sources within Kansas, they must file a consolidated return for Kansas income tax purposes.
2. Any taxpayer having income from business activity taxable both within and without Kansas, shall allocate and apportion net income by the single entity apportionment method. The business income is apportioned by multiplying the business income by a fraction, the numerator of which is the property factor plus the payroll factor plus the sales factor, and the denominator of which is three.
3. The property factor consists of an average of the original cost of owned real and tangible personal property used in the business and the net annual rents for property multiplied by 8.
4. State and municipal interest is an add back to federal taxable income on line 2 of Form K-120. The portion that is non-taxable to Kansas should be deducted on line 9.
5. Other additions to federal taxable income include business expense deductions claimed on your federal return for making your business accessible to the disabled for which a Kansas tax credit is available and for charitable contributions claimed that are used as the basis for computing Kansas community service contribution credit.
6. A Kansas net operating loss carryforward schedule should be attached to keep track of loss years.
7. Taxpayers should make themselves aware of the different kinds of nonrefundable credits available.
8. Other income (losses) and deductions that are added to federal ordinary income from federal Schedule K should not include items that would affect the itemized deductions of the shareholders.
9. Corporations with nonresident shareholders and with income derived from sources within and without Kansas are to complete Part I, page 2 of Form K-120S or provide a substitute schedule for the allocation. If all income is from Kansas then this part does not need completed.
10. There is a box in Part II, page 2 to check if the shareholder is a nonresident. Since modifications for nonresident income are included in the allocation from Part I, no further modification to Subchapter S income is needed on the Kansas individual income tax return.
11. See instructions for the nonrefundable credits available that flow through to the shareholder and are not shown on the Form K-120S.
12. Have you completed Part III and Part IV of the Kansas tax return showing the following items:
 - Taxes deducted on the Federal return?
 - Interest income included on the Federal Return?

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

KENTUCKY

1. S corporations must apportion 100% of income to KY if 100% of tangible personal business property and 100% of payroll is in KY. Payroll is not considered to be outside of KY if the activity of the employee does not exceed the threshold of P.L. 86-272.
2. For entities that may apportion income outside of KY, the standard apportionment methodology does not contain a throwback rule.
3. When apportioning income to nonresident owners of pass-through entities, a single factor gross receipts formula is used instead of the standard three factor apportionment method.
4. Consolidated income tax reporting must be affirmatively elected and is binding for a 96 month period. The election is available for tax years ending on or after 12/31/95. For periods prior to this date, it may be possible to assert that unitary reporting more clearly reflects income than separate reporting. Generally, separate entity reporting is required for license tax purposes. However, certain corporations (holding companies domiciled in Kentucky) may elect to file a consolidated license tax return. This is an annual election and is made separately from the election for consolidated income tax reporting. These corporations (holding companies domiciled in Kentucky) may also use separate entity reporting for license purposes and reduce the license tax base by its book value of investments in any corporation in which it owns more than 50% of the corporation's outstanding stock.
5. Generally, the same method used to apportion total income to Kentucky should be used to apportion the total license tax base to Kentucky. Debt incurred to purchase inventory may be excludable from the license tax base if strict documentation requirements are satisfied. Certain liabilities, such as deferred tax liabilities, may be excludable from the license tax base to the extent they can be netted against a corresponding asset such as deferred tax asset. The number of such liabilities that may be excluded is limited.
6. There is no prior year safe harbor with respect to C corporation estimated tax payments. At least 70% of current year income tax must be paid as estimated tax payments for every corporation whose income exceeds \$5,000. The due dates are the 15th of the 6th, 9th, & 12th months of the corporate year with 50% of the total estimated tax due on the 15th day of the 6th month of the corporate year.

LOUISIANA

1. LLCs are not subject to Louisiana franchise tax.
2. There is no business/non-business distinction in Louisiana. Allocable income is defined in the law.
3. Ownership of a partnership interest, limited or general, or LLC interest, will subject a corporation to Louisiana franchise tax.
4. Double-weighted sales factor for manufacturing businesses for franchise tax years beginning 1/1/97, which is reported on the income tax return beginning 1/1/96. Double-weighted sales factor for manufacturing businesses for income tax years beginning 1/1/97.
5. IRC §311(b) gain added back if deferred for federal purposes under IRC §1502.
6. Certain Industrial Revenue Bonds should not be included in the franchise tax base, for years ending before 1/1/97.
7. Revenue from a partnership means the partner's share of net income of the partnership, not the partner's share of gross receipts from the partnership for franchise tax revenue factor purposes.
8. All debt from an affiliate is included in the franchise tax base, regardless of its length outstanding, unless the debt is the result of normal trading accounts.
9. No federal income tax deduction allowed if no Louisiana income tax paid in the current year, for instance, if the corporation has a Louisiana net operating loss.
10. When a corporation has deferred tax assets and deferred tax liabilities, the net is included in the franchise tax base.

MAINE

1. Maine has updated its conformity to the Internal Revenue Code.
2. Maine follows the Joyce rule (i.e., sales into jurisdictions where a taxpayer is not subject to tax, but where a unitary member is subject to tax, are thrown back to Maine) for purposes of calculating the sales factor.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

3. The statutory requirement to add back to taxable income research expenses included in the basis for the Research Expense Tax Credit has been repealed.

MARYLAND

1. Consider the statutory modification in net operating loss years, and carryback and carryforward years.
2. Consider sourcing of gross business for financial institutions franchise tax.
3. Consider the new regulations regarding sourcing of receipts for banks under the corporate income tax.
4. Consider the apportionment and sourcing of receipts under the market sourcing rule for service businesses and the two-factor (receipts and property) for rental and leasing businesses.
5. Consider sourcing of interest, capital gains, and other income from intangibles.
6. The administrative position is to follow the federal due date for short period returns.
7. Consider the electronic funds transfer (EFT) payment requirements.
8. Maryland does not have a separate NOL provision. However, Maryland's starting point for determining Maryland taxable income is federal taxable income after NOL and special deductions (i.e., line 30). However, line 1 of the Maryland return may not be less than zero except to report an NOL incurred in the current year.

MASSACHUSETTS

1. For tax years beginning before January 1, 1999, there is no dividends received deduction allowed for financial institutions.
2. The Massachusetts sales factor for manufacturing corporations is currently 70% of the apportionment percentage, but will increase by 10% each year until the single sales factor is fully phased in (after January 1, 2000).
3. In the context of a combined return, NOL carry forwards may only be used by the company that generated the losses. Loss carryover is allowed for all corporations; however, they may only offset the income of the corporation sustaining the loss. They may not use the carryover loss to offset the income of other members of the group.
4. Continuing research credit, calculated on Schedule RC, must be added back as income on Schedule E.
5. The Perini case extended the deduction for investment in subsidiaries to include 80% owned foreign corporations. This deduction is available in calculating the Net Worth Tax of a foreign intangibles company (Form 355B, Sched. D, Line 4). However, in determining whether a company is classified as tangible or intangible, only investment in foreign corporations that are not doing business in Massachusetts are counted. (Form 355B, Sched. B, line 11)
6. MA recognizes the flow through of S-corps but requires the filing and paying of the property measure of the tax and at least the minimum excise of \$456.00 for S-corps doing business in MA. S-corps with gross receipts over \$6 million must pay a tax at the corporate level on income earned by the S-corp. In addition, the income flows through and is taxed at the individual level. S-corps with receipts over \$6 million pay a tax of 3% and S-corps with receipts over \$9 million pay a tax of 4.5% of taxable income.
7. MA has passed into law a single factor formula (sale only) for defense contractors so electing, manufacturing companies as defined in statute (phased in over the next 4 years), and certain mutual fund companies.
8. Two or more members of a corporate group filing a consolidated return may file a combined MA return. All members that are taxable in MA must participate. Each member separately apportions their income then all members are combined thereafter.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

9. MA has taken the position that corporations are taxable where their only connection with MA is the ownership and use of intangibles in the state.
10. MA throwback rules are based on where the property is sold from. Called the "sales office origination" test the effect is that a sale is a MA sale if sold to a customer in a state where the taxpayer is not subject to tax and the sale was made from an office owned or rented by the taxpayer in MA. This throwback rule is very different from most states who generally use a "shipped from" test.
10. The tax is based on two measures; a property measure and an income measure. The property measure is \$2.60 per \$1,000.00 of net worth or tangible property in state, whichever is applicable. The income measure is equal to 9.5% of the MA taxable income. The total of the two measures equals the tax. The tax will be equal or exceed the minimum of \$456.00.

MICHIGAN

1. Written authorization is required before filing on a consolidated basis. See RAB 89-49 for requirements that must be met before Department will grant permission.
2. Taxpayer must determine whether an entity is a financial or non-financial organization based on nature of entity, assets, or gross receipts (see §208.10(4) for definition). Non-financial organizations include the following in gross receipts: sales, gross rents, and other income. Financial organizations include the following in gross receipts: sales, dividends, interest, gross rents, and other income.
3. Business income is based on taxable income as computed under IRC in effect as of January 1, 1987.
4. Salaries, wages, and other payments to employees must be computed on the cash basis, i.e., Form 941.
5. Pension, retirement, and profit sharing plans include employer portion of 401(k) contributions.
6. Depreciation and other write-off of tangible assets does not include software which is not a tangible asset for Michigan purposes.
7. Non-financial organizations subtract interest income from the tax base and include interest expense as an add-back to the tax base.
8. Income and losses from partnerships or other pass-through entities are excluded from the SBT, as these entities are subject to tax on a separate entity basis.
9. Failure to take the compensation or gross receipts adjustments to the tax base.
10. Nexus standards differ significantly in Michigan, P.L. 86-272 does not apply. See Michigan Revenue Administrative Bulletin 1998-1, February 24, 1998.

MINNESOTA

1. Adjustments are required for ACRS/MACRS depreciation for property placed in service before 1988.
2. Contributions to charitable organizations that do not perform substantially all of their activities in Minnesota are not deductible.
3. Contribution carryovers are not allowed.
4. Minnesota capital loss deduction may be different than federal amount.

MISSISSIPPI

1. When making adjustments as instructed to in the Mississippi income tax returns to back-out any gains and/or losses from the Federal schedule D of from Form 4797, a taxpayer needs to be sure to use the Mississippi Forms 83-135, 83-140 and/or 83-145 to add Mississippi's share back to Mississippi taxable income or loss.
2. An LLC will report it's income to Mississippi in the same manner as it does for Federal.
3. If a corporation or other entity sales the stock of a Mississippi domestic corporation or interest in a Mississippi LLC, LLP or limited partnership that it has held for a year or more then any gain from the sale is exempt from Mississippi income tax.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

4. Construction contracts, oil and gas production, and other natural resources except timber must be accounted for by using separate accounting.
5. Franchise Tax- For tax returns for tax years ending on or after 1/1/99, the Mississippi gross receipts for franchise taxes will be the same as that used in the receipts or sales ratio as contained in the apportionment formula used to apportion the income tax. This will effect each multistate manufacturing company filing in Mississippi. If the apportionment formula for income tax does not contain a receipts of sales ratio then the method will remain as before.
6. Ownership of a partnership interest, limited or general, or LLC interest, will subject a corporation to Mississippi franchise tax.
7. If a LLC files as a corporation for federal purposes then it will be subject to Mississippi franchise tax. If a single member LLC is treated as being liquidated into its parent for income taxes then the LLC will not be subject to Mississippi franchise taxes.

MISSOURI

1. Missouri allows a C corporation to deduct 1/3 of federal tax (amount from Federal tax return).
2. Missouri C corporation rules generally follow federal taxation. However, the beginning amount on the Missouri return (federal taxable income) cannot be less than \$0.
3. Missouri law provides a credit for the creation of certain new jobs within an enterprise zone.
4. Missouri allows a deduction for the same net operating losses as is allowed under federal rules for C corporations, apportioned to represent losses sustained in Missouri in the business of the corporation.
5. To file a Missouri consolidated return for a C corporation, the corporation must be part of a consolidated federal return and derive 50% or more of its income (for the first consolidated Missouri return) from sources within Missouri. (The Dept. of revenue has been known to challenge the filing of a consolidated return in future years if the percentage falls below 50%. However, technically a taxpayer cannot change without approval of the Department.)
6. Withholding is required for non-resident S corporation shareholders.
7. Corporations entitled to apportion their income that do not file a consolidated return may annually elect to use the single factor formula or the three factor Multistate Tax Compact formula to determine its Missouri taxable income.

MONTANA

1. Capital losses are deductible as incurred without being subject to the federal limitation.
2. A financial institution may not use a reserve method in computing its deduction for loan losses; it must use the specific charge-off method.
3. If desired, the waters' edge election is due within the first 90 days of the taxable year for which the election is to be effective.
4. In the event of a merger of corporations, the net operating loss carryovers of both the target and the survivor are lost.
5. Montana does not exempt from taxation interest earned from investments in state, municipal and federal government obligations.
6. Prior to 1997, financial institutions were not allowed to join in the filing of a consolidated Montana corporate license tax return. However, beginning in 1997, this provision is repealed resulting in the ability to include banks and thrifts in consolidated Montana returns.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

NEBRASKA

1. Nebraska recently passed a statute repealing the throwback rules in connection with corporations doing business in states other than Nebraska where the corporation does not have nexus. Sales in these non-nexus states are no longer “thrown back” into the numerator of the Nebraska apportionment factor.
2. Determine whether the taxpayer qualifies for the Nebraska incentive credits under LB 270. In general, if a business adds two full time employees and fixed assets of \$75,000, the business may qualify for incentive credits of \$1,500 per employee and \$1,000 per \$75,000 of investment. The credits are reported on Form 3800N.
3. Determine whether the taxpayer qualifies for the Nebraska incentive credits under LB 775. In general, a qualifying business must file an application and invest \$3,000,000 in qualifying assets and hire at least 30 employees over a seven year period.
4. Consider claiming fuel tax credits and community development act credits.
5. Be aware that Nebraska net operating losses only carry forward -- they cannot be carried back.
6. If there are no non-Nebraska shareholders for an S Corp, the Form 1120SN does not need to be filed with the Nebraska Dept. of Revenue. Thus, only the federal return needs to be filed in that instance.
7. Withholding is required for an S Corp if there is no Form 12N received by the corporation from a nonresident shareholder.
8. In doing the calculation of investment credit on Form 3800N for companies that are renting real estate properties rather than owning them, rent expense is capitalized by taking the rent expense paid in the last month of the year times 12 (to arrive at the annualized years' rent expense) and then multiply that amount by 8 (to arrive at the capitalized amount).
9. If a company has filed the Form 3800N to claim investment and/or employment credits in prior years, the form also needs to be filed the next two years because part of the tax will be subject to recapture if investment and employment levels are not maintained.

NEVADA

1. Nevada does not impose a corporate income tax.

NEW HAMPSHIRE

1. The Business Enterprise tax is assessed on .25% (.0025) of the taxable enterprise value tax base, which is the sum of all compensation paid or accrued, interest paid or accrued, and dividends paid by the business enterprise after special adjustments and apportionment.
2. The business profits tax is imposed at 7% of taxable business profits of every business organization.
3. A credit is available for Business Enterprise Taxes paid.
4. NOLs are apportioned for each year they are used, effectively decreasing the NOL by a function of the apportionment percentage each year.
5. No deduction is available for NOLs incurred before January 1, 1989.
6. Foreign corporations doing business in New Hampshire are required to pay an annual franchise tax of \$300. Domestic corporations pay this tax based on the amount of authorized capital stock.

NEW JERSEY

1. Consider the proper filing and completion of Schedule N for foreign corporations seeking immunity from income taxation pursuant to PL 86-272.
2. Consider making an election to be treated as a New Jersey S Corporation.
3. Consider reporting changes or corrections made by the IRS to taxable income within ninety days.
4. Consider the incorrect calculation of net operating loss carryovers for corporations entitled to dividend exclusions.
5. Consider the incorrect utilization of net operating loss carryovers of corporations merged out of existence.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

6. See revised N.J.A.C. 18:7-8.10 for rules regarding sourcing receipts from services.

NEW MEXICO

1. Consider the correct filing method (e.g., taxpayers often select federal consolidated for ease of filing, without realizing this is a permanent election or that they may file under a different method).
2. Consider whether income is business or nonbusiness, and therefore apportionable or allocable (New Mexico's form is confusing in this matter and leads to mistakes).
3. Consider the subtraction of expenses from allocated income.
4. Overnight repurchase accounts should not be treated as income from U.S. obligations.
5. Review NOL limitations as both the New Mexico form and the regulations are confusing.

NEW YORK

1. New York State and City ("NYS/C") have specific rules for corporations that calculate expenses disallowed as attributable to investment and subsidiary capital. Both interest and non-interest expenses may be disallowed using a direct or indirect approach. While the direct approach may be more difficult to determine, it may result in NYS/C corporate tax savings.
2. Where two corporations have more than 80% common ownership and are unitary, it will be presumed that they should file on a combined basis for NYS/C corporate tax purposes where the corporations have substantial (greater than 50%) intercorporate transactions.
3. Consider special NOL rules: (1) NYS/C NOLs cannot exceed federal NOLs. (2) A non-combined filer computes NOLs on a hypothetical separate company federal basis. (3) NOLs originating after 6/30/89 can only be carried forward.
4. There are limitations on different categories of income and capital in NYS/C. By statute, pre-apportionment investment income cannot exceed pre-apportionment entire net income. In practice, the same rule has been extended to apply to any category of income, as well as any category of capital (e.g., pre-apportionment business capital is limited to pre-apportionment entire capital).

NORTH CAROLINA

1. Corporations are eligible for a tax credit for investing in business machinery and equipment placed in service in NC after 8/1/96.
2. NC does not have a throwback rule for multistate corporations.
3. The franchise tax calculation base for "Capital Stock, Surplus and Undivided Profits" allows a deduction for tax accumulated depreciation in excess of book depreciation.
4. NC does not allow NOL carrybacks. It allows a five year carryforward for "NC net economic losses."

NORTH DAKOTA

1. A deduction calculated on Schedule E is allowed for federal taxes.
2. Tax credits are allowed for contributions to nonprofit private colleges and high schools.
3. An exemption is available for new and expanding businesses from the State Board of Equalization.
4. Various tax credits are allowed and are computed on Schedule TC.
5. North Dakota income tax statutes did not allow for the use of ACRS depreciation on assets placed in service between January 1, 1981 and the end of the 1982 tax year. These assets must be depreciated using methods allowed under the Internal Revenue Code provisions in effect as of December 31, 1980. Income must be adjusted for the difference in these two methods.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

OHIO

1. There is no designation of business v. non business income in determining taxable income. The determination as to whether income is to be apportioned v. allocated is based upon the income classification.
2. The apportionment formula utilized to compute the net worth tax is based on a business "done" and property factor, which are both different than the net income apportionment factors. Business Done includes items treated as allocable for income tax purposes and the property factor is based upon total assets as reported on the GAAP balance sheet of the taxpayer. Different situsing rules exist for each of these factors.
3. In computing the net worth tax, certain assets are considered exempted including appreciation and goodwill as recorded on the balance sheet. Mark to Market adjustments are considered as appreciation. Any net depreciation in any specific asset does not necessarily require net reduction in the appreciation adjustment. Appreciation is not defined, and has been the subject of many issues over the last several years.
4. There are no estimated payments required in Ohio. Tax is remitted first by January 31st, March 31st and May 31st. Extended return is due either on May 31st or one month past the extended federal return due date. There is no short period return in Ohio.
5. Combined returns can be filed for just the net income tax. Any member included in the combined return must have income tax nexus with the state, must timely elect to be included in the return, must be considered to be part of a related group with 50% common control and ownership, and will be difficult to break the combined filing without significant changes in the factual situation.
6. Adjustments to the net income tax base may be required in cases where royalty, interest and other intangible expenses are deducted on a taxpayer's Ohio return when the payor is not incurring a tax liability for the corresponding income.
7. Net foreign source income is deducted from the net income tax base to the extent of 85%. Expenses must be attributed to the foreign income in order to compute the net deduction.
8. When a taxpayer is reorganizing its group of affiliates an adjustment to the net income tax may be required to the extent income is earned within the tax year prior to the reorganization by a corporation no longer considered to be conducting business operations on Jan. 1st of the tax year.

OKLAHOMA

1. The three factor formula is applied to each corporation in a consolidated group, not on a consolidated basis.
2. The State tax is deductible in computing state taxable income.
3. There is no 65% limitation for Oklahoma oil and gas depletion deduction as there is for federal purposes.
4. The Oklahoma depletion rate is 22% and major oil companies are limited to 50% of taxable income from an oil and gas property.
5. An officer's compensation is backed out in determining the payroll factor in Oklahoma.

OREGON

1. Consider the unitary versus separate filing issues, including the treatment of passive holding companies in the unitary group (the state has been reluctant to allow inclusion).
2. Complete both methods of calculating the Oregon R&E credit. The alternative method may result in higher credit.
3. Complete both methods of calculating the Oregon R&E credit even when the taxpayer is in an NOL position because a carryover provision exists.
4. Review how Oregon defines receipts for apportionment purposes and how it specifically addresses the throwback rule.
5. An out of state company may also be required to file the Portland/Multnomah County Business License Return.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

PENNSYLVANIA

1. Determine whether the most advantageous apportionment method is chosen in determining the Capital Stock/Franchise (CS/F) Tax and Corporate Net Income (CNI) Tax as several methods exist.
2. Determine whether separate returns were filed for each entity (PA does not allow consolidated tax reporting).
3. PA requires the payment of quarterly estimates for both the Capital Stock/Franchise Tax as well as the Corporate Net Income Tax. Determine whether all quarterly estimated tax payments have been claimed.
4. PA S corps, partnerships & individuals are allowed to deduct meal and entertainment expenses at 100%.
5. Determine whether dividend income was included in the average income when computing the Capital Stock/Franchise tax.
6. Determine whether the amounts used on the RCT-101, Sec. A agree with the amounts on the Federal 1120, Sch. L and M-1 (which need to be attached). If not, include sub-schedules to reconcile any differences.
7. Review whether the CS/F tax is properly prorated for short tax years.
8. CS/F Tax - Review whether book income amounts excluded equity in subs and included dividends from subsidiaries.
9. CS/F Tax - Review whether the manufacturing exemption was properly taken or calculated.
10. CNI - Review whether reinstated NOL deductions were properly taken.

RHODE ISLAND

1. Multistate credit card banks may elect to apportion net income to RI based on income derived from customers domiciled in RI.
2. S corps are subject to the franchise tax.
3. RI does not have a throwback rule, which creates the possibility of "nowhere" sales for purposes of the sales factor.

SOUTH CAROLINA

1. Review state law concerning filing consolidated or separate returns.
2. If filing a consolidated return, check for proper calculation of franchise fee.
3. If filing an S Corp return, note that disability insurance payments are not deductible.
4. Layout of corporate return does not allow for combining income tax and corporate license before application of payments to get to net refund due.
5. If client has NOLs, review tracking of SC NOLs.

SOUTH DAKOTA

1. South Dakota does not impose a corporate income tax.

TENNESSEE

1. Franchise Tax - Review the calculation of adequacy of capital.
2. Franchise Tax - Review the types of reserves included in capital base.
3. Franchise Tax - Review the calculation of franchise tax for unitary group of financial institutions.
4. Review the calculation of estimated tax payments.
5. Review the calculation of net operating loss.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

TEXAS

Regarding Corporate Franchise Tax and Taxable Capital:

1. Solicitation by independent representatives may create nexus and a filing obligation.
2. Reserves such as inventory obsolescence, warranty reserves, reserves for lawsuits, writedowns of assets, etc. must be included in surplus. To be excluded, the reserves must meet the definition of debt (time certain, sum certain, and contractual).
3. Investments in subsidiaries must be reported at their cost basis. Equity reporting is not allowed. Therefore, if the subs are kept on the books on the equity method of accounting, an adjustment will need to be made to deduct the S Corporation earnings and add back any dividends that have been adjusted in the records.
4. Consolidated reporting is not allowed. Intercompany eliminations such as deferred intercompany profits are included in surplus as if the sale was made to an outside third party.
5. Texas has a throwback rule, however, solicitation is enough in another state to not "throwback" the other states sales. There will generally be different percentages of Texas business for the taxable capital and the earned surplus piece of the franchise tax.
6. Interest on federal obligations is included in the gross receipts denominator.
7. Dividends from affiliates are included in the gross receipts denominator. There is no dividend received deduction for the taxable capital.

Regarding Earned Surplus:

8. Public Law 86-272 protects solicitation activities in Texas. As a result, most companies will have a different percentage of Texas business for the taxable capital component and the earned surplus component of the franchise tax.
9. Interest on federal obligations are not included in the federal income tax base or in the gross receipts denominator.
10. Except for banks, officer and director compensation addback had included all officers of the company by title. However, proposed changes to 34TAC Sec. 3.558 would require an addback only for persons who hold an office created by the board of directors or articles of organization AND have the legal authority to bind the corporation with third parties by executing contracts or other legal documents. Exemptions from this compensation addback are provided for S corporations and other corporations with less than 36 shareholders.
11. Compensation includes all benefits reported on Forms W-2 and 1099.
12. A business loss carryover created by a company that is a nonsurvivor of a merger does not carryforward to the survivor (Note: This issue is currently in litigation at the District Court level).

UTAH

1. Determine whether the \$1,000,000 limitation on NOL carryback applies to the taxpayer.
2. Taxpayer should use the Finnigan method for sales factor purposes (as opposed to the Joyce method).
2. Utah now follows IRC §338(h)(10), including a one day return to be filed when one is required by the I.R.S.
3. Determine whether the deduction for R&E expenses or other expenses which may have been reduced, due to claiming a federal tax credit applies to the taxpayer (it is disallowed on the federal return).
4. Utah requires a "Water's Edge" combined return to be filed. A world wide election can be made by the taxpayer. For non-unitary corporations which have a parent sub relationship doing business in Utah can elect to file an elected combined return which includes those corporations doing business in the state.

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

VERMONT

1. S corporations, LLCs and partnerships are required to withhold income tax on Vermont taxable income allocable to non-Vermont residents (new for 1997).
2. Vermont does not allow NOL carrybacks.
3. Only entities with Vermont nexus are allowed to file consolidated Vermont corporate tax returns.
4. Vermont uses an equal weighting of each of the three factors (sales, payroll & property).
5. Each registered corporation must file an annual report with the Vermont Secretary of State's office, which is due at the same time as the corporate income tax return. A fee is due with this annual report.

VIRGINIA

1. Returns may be filed by one of three different methods: separate, combined or consolidated. An election must be made to file a consolidated return in the first full year in which two or more affiliates are subject to Virginia tax.
2. Once an election is made to file separate, combined or consolidated, it is a binding election that may only be changed with written permission from the department. Only those corporations having Virginia nexus may join in a combined or consolidated filing, and the original election is binding on any affiliates which in the future may incur a Virginia tax liability.
3. Corporations filing on a combined or consolidated basis, or as a multistate corporation, should refer to Title 23 Virginia Administrative Code 10-120-320 through 327 for additional modifications.
4. Virginia does not have a separate NOL provision. However, Virginia's starting point for determining Virginia taxable income begins with federal taxable income after federal net operating losses have been deducted. However, line 1 of the Virginia return may not be less than zero except to report an NOL incurred in the current year.
5. There is no throw-back rule for the Virginia sales factor.
6. Virginia law does not provide for the allocation of any income other than dividends. Virginia recognizes that some taxpayers may be entitled to an alternative method of allocation and apportionment if they can demonstrate that the application of Virginia's apportionment law to their particular facts for the taxable year would be contrary to the provisions set forth in *Allied Signal, Inc. v. Director, Division of Taxation*, 112 S. Ct. 2251 (1992).
7. Only certain passive types of income (interest, dividends, rents & royalties, etc.) qualify for the Foreign Source Income Subtraction.
8. The Foreign Source Income Subtraction is computed net of related expenses.

WASHINGTON

1. Washington does not impose a corporate income tax.

WEST VIRGINIA

1. Out-of state financial organizations that are part of an affiliated group of corporations that file a consolidated federal return, may elect to file consolidated West Virginia BFT & CNIT returns. (SB129)
2. West Virginia has a liberal definition of U.S. Government Obligations for form A-1 exclusions (includes agencies such as FNMS, GNMA's, etc.).

UNIQUE STATE BY STATE CONSIDERATIONS FOR STATE CORPORATE TAX RETURNS

WISCONSIN

1. Income from obligations of the U.S. government is included in income when subject to the franchise tax (most corporate taxpayers), but not included when subject to income tax.
2. Corporations may deduct from income, dividends received from a corporation with respect to its common stock if the corporation receiving the dividends owns, directly or indirectly, during the entire taxable year at least 70% of the total combined voting stock of the payor corporation.
3. Some taxpayers have been successful in taking a more aggressive approach in classifying nonapportionable income. (See Agricultural Building Co. vs. Wisconsin Department of Revenue, Wisconsin Department of Revenue vs. Citizen Publishing Co. of Wisconsin Inc., and Hercules Incorporated vs. Wisconsin Department of Revenue)
4. The payroll factor includes wages, salaries, commissions and any other form of remuneration paid to employees for personal services including amounts contributed to a qualified cash or deferred arrangement under IRC §401(k). The payroll factor also includes management or service fees paid to a related corporation for the performance of personal services.
5. Foreign sales do not get thrown back to Wisconsin.

WYOMING

1. Wyoming does not impose a corporate income tax.

NEXUS, MULTISTATE TAX AND STATE NET OPERATING LOSS ISSUES PRACTICE GUIDES

INTRODUCTION

This practice guide was developed by the AICPA State and Local Taxation Committee to inform practitioners about state corporate tax issues, such as **nexus, multistate tax issues, and state net operating loss (NOL) issues**. This guide should be considered in connection with the checklist questions (particularly those in 600) and 700)) contained in the *State Corporation Income Tax Return Checklist* also included in this AICPA *Tax Practice Guides and Checklists* publication package. In addition, practitioners should refer to the *State Tax Return Preparation Guide For All States' CORPORATION State Tax Returns* (also included in this AICPA *Tax Practice Guides and Checklists* publication package) for common problems and unique tax issues concerning each of the states' corporate state tax returns.

Below in this practice guide is a state tax nexus checklist that contains a list of the most frequently asked questions appearing in states' nexus questionnaires. Practitioners should be aware that the weight of interpretation given to specific questions may vary from state to state. However, the list can serve as a practice tool for practitioners in soliciting information from clients and analyzing such information. This guide is intended to be a broad reference tool and an aid in addressing nexus (pages 1-7), multistate (pages 7-13), and state NOL tax issues (pages 13-14), and is not intended to answer the question of whether a specific company has nexus or certain tax obligations in a particular state. It should be noted that there are different nexus standards for the different types of taxes. The laws and policies of each state should be verified for application to specific cases.

STATE TAX NEXUS EXPLANATION

In July 1998, the AICPA State and Local Taxation Committee published an updated detailed nexus guide with a compilation of nexus checklist questionnaires utilized by each of the fifty states and a summary of specific nexus attributes unique to each of the states. If you would like a free copy of this package, please call the AICPA Order Department at 1-888 777-7077, Dept. #1 and identify yourself as a Tax Division member and request product #061058.

Nexus describes the amount and degree of business activity that must be present before a state can tax an entity's income. If a taxpayer has nexus in a particular state, the taxpayer must pay and collect/remit taxes in that state.

In general, nexus is created for income tax purposes if an entity derives income from sources within the state, owns or leases property in the state, employs personnel in the state in activities that exceed "mere solicitation," or has capital or property in the state. The amount of activity or connection that is necessary to create nexus is defined by state statute or case law and/or regulation and, consequently, tends to vary from state to state. However, all states are limited by Constitutional principles, judicial doctrine and federal law.

Briefly summarized below are: the federal statute governing "protected" activities within a state, relevant issues from three key U.S. Supreme Court cases concerning nexus, and recent activities of the Multistate Tax Commission (MTC) in this area.

1. Public Law 86-272 (15 U.S.C. §381)

Nexus for net income tax purposes is not established merely because sales of tangible personal property are solicited within the states. The states are prohibited under Public Law 86-272 from imposing a tax on or measured by net income when an entity's only connection with the state is the solicitation of orders for sales of tangible personal property, and such orders are accepted and shipped or delivered from outside the state. The Virginia Supreme Court recently ruled (January 1997) in the *National Truck Council* case that delivery in company-owned trucks, standing alone, does not establish nexus for income tax purposes because of the

STATE TAX NEXUS EXPLANATION

protection afforded by Public Law 86-272. The immunity afforded by this statute does not apply, however, to any corporation incorporated within the taxing state. This immunity only applies for state income tax purposes and, consequently, does not apply to such taxes as sales/use, gross receipts, etc.

Under Public Law 86-272, the only immunity accorded is for the solicitation of orders for the sale of tangible personal property. Thus, the solicitation for the sale of real property, intangible property, or services is not provided immunity under Public Law 86-272 and may cause a taxpayer to have nexus in a state where such solicitation occurs. The issue of “economic nexus” in the case of service providers with no physical presence in the state remains unresolved.

For more information on the jurisdiction to tax, refer to State Taxation, by Jerome R. and Walter Hellerstein.

2. Physical Presence

Historically, cases brought before the U.S. Supreme Court relating to nexus involved factual situations in which the taxpayer had a degree of physical presence in the state seeking to impose its tax. In *Quill Corp. v. North Dakota*, 112 S.Ct. 1904 (1992), the U.S. Supreme Court ruled that the Commerce Clause mandated that, absent action by the U.S. Congress to the contrary, a taxpayer must have some physical presence in a state to be subject to collection responsibility for the state’s use tax (*Quill* at 1914). Although *Quill* deals with use tax, the Court’s discussion of the general Due Process and Commerce Clause Constitutional principles of nexus opinion sheds some light on their application to franchise and income taxes.

The Commerce and Due Process Clauses are generally considered to be the primary constitutional limitations on state taxation. The Commerce Clause provides that “Congress shall have the power to regulate Commerce with foreign Nations, and among the several states, and with the Indian tribes.” The Commerce Clause has been interpreted as not only conferring power on the national government to regulate commerce but also as limiting the states’ powers to interfere with commerce.

An analysis of whether a tax burdens interstate commerce involves the four prong test delineated in *Complete Auto Transit v. Brady*, 430 U.S. 274 (1977). The activities taxed must have a substantial nexus with the taxing state; the tax must be fairly apportioned; the tax must not discriminate against interstate commerce; and the tax must be related fairly to the services provided by the state.

The Due Process Clause prohibits states from denying any person “life, liberty, or property, without due process of law.” Due process protects against unfair governmental interference or taking of property. A state whose laws provide protection, security, and opportunities to individuals, property, and business may exact a toll in the form of taxes to support the government but not without due process of law. Under the Due Process Clause, for a state to have jurisdiction to impose a tax on a taxpayer, there must be a minimal connection between the taxpayer’s interstate activities and the taxing state.

The South Carolina Supreme Court, in *Geoffrey, Inc. v. South Carolina Tax Commission*, 437 S.E.2d 13 (S.C. 1993) held that a Delaware holding company that owned only intangible property used in South Carolina was subject to income tax. The court rejected Geoffrey’s claim that it had not purposefully directed its activities toward South Carolina’s economic forum and held that by licensing intangibles for use in the state and receiving income in exchange for their use, Geoffrey had the minimum connection and substantial nexus with South Carolina required by the Due Process Clause and the Commerce Clause of the U.S. Constitution. In addition, Geoffrey’s receivables were found to have a business situs in South Carolina.

STATE TAX NEXUS EXPLANATION

The U.S. Supreme Court subsequently denied certiorari in *Geoffrey* (114 S.Ct. 50 - 1993), making the case applicable only in the state of South Carolina. Many states, however, have incorporated through statute or regulation the principles of economic nexus outlined in *Geoffrey* regarding intangibles in the nature of trademarks and trade names. Practitioners with clients having intangibles should review any recent changes in the applicable state laws and regulations in this area.

3. Solicitation

Under Public Law 86-272 (15 U.S.C. §381), an activity is immune from net income taxation if it consists merely of solicitation of sales of tangible personal property. The term "solicitation" is not defined by Public Law 86-272, however, the U.S. Supreme Court in *Wisconsin Dept. of Rev. v. William Wrigley, Jr. Co.*, 112 S. Ct. 2447 (1992) (Wrigley) interpreted this term. In finding that Wrigley's activities in Wisconsin exceeded the protection of Public Law 86-272, the Court held that the solicitation of orders includes "any explicit verbal request for orders and any speech or conduct that implicitly invites an order." The clear line is the one between those activities that serve no independent business function apart from their connection to the soliciting of orders and those that the company would have reason to engage in anyway but chooses to perform through its in-state sales force. The Court affirmed the *de minimis* principle of Public Law 86-272 in holding that to lose the immunity afforded by Public Law 86-272, the activity must establish a nontrivial additional connection with the taxing state. In the aggregate, though minimal in comparison to Wrigley's total solicitation activities in the state, the non-immune activities exceeded the *de minimis* standard in the aggregate. Practitioners should consider whether activities other than solicitation are more than *de minimis* in a particular state.

4. Multistate Tax Commission (MTC) Guidance to the States

The MTC has issued lengthy guidance under P.L. 86-272: Information Concerning Practices of Multistate Tax Commission States Under Public Law 86-272 (adopted 7/11/86), Statement of Information of Multistate Tax Commission and Signatory States Under Public Law 86-272 as Revised January 22, 1993, and Statement of Information of Multistate Tax Commission and Signatory States Under Public Law 86-272 as Adopted July 29, 1994. The MTC guidance provides a list of activities which it considers protected under P.L. 86-272 and a list of unprotected activities which will cause sales to lose their protection under the Public Law.

Working together through the MTC, twenty-six states issued Nexus Program Bulletin 95-1 (12/20/95) targeting the computer direct marketing industry. The bulletin takes the position that because in-state repair services are not immune from taxation by reason of P.L. 86-272, the use of independent contractors or other representatives of a computer company to provide such repair services creates nexus for the computer company. Although the nature of the bulletin is informative and educational rather than regulatory, it has met much opposition from industry and mixed reaction from the states. In fact, California has rejected the bulletin as a policy statement. The California State Board of Equalization (BOE) voted on March 14, 1996 to rescind California's inclusion on the list of 26 states that have adopted MTC Bulletin 95-1.

In addition, the MTC is working on a draft Nexus Guideline for Application of a Taxing State's Sales and Use Tax to a Remote Seller. The AICPA State and Local Tax Committee commented on the 10/25/94 draft of these regulations on April 12, 1995. The committee objected to the concept of "deemed physical presence" and the notion that an interest in intangible property could create physical or deemed physical presence. Since then, the MTC has issued a new working draft that seeks to establish the constitutional nexus guidelines for application of a state sales and use tax to an out of state business (1/98). The MTC is forming a pilot group of states to prepare draft information guidelines that can be reported back to the MTC Uniformity Committee.

STATE TAX NEXUS EXPLANATION

The MTC also assists businesses involved in multistate commerce in voluntarily resolving potential state sales/use and income/franchise tax liabilities where nexus is the central issue. The program acts as a coordinator through which companies may approach 36 member states (AL, AK, AZ, AR, CA, CO, CT, DC, FL, HI, ID, IA, KS, KY, ME, MD, MA, MI, MN, MO, MT, NE, NH, NJ, NM, NC, ND, OH, RI, SC, SD, TX, UT, WA, WV, WI) anonymously and seek resolution of potential liabilities arising from past activities. It is the strict policy of the National Nexus Program member states and the MTC that they will not reveal the identity of a taxpayer to any state that does not accept the voluntary disclosure agreement. For further information on this program, refer to the AICPA *State Tax Nexus Checklist/Practice Guide*, or contact the MTC at 202-508-3800. We note that experience has shown that taxpayers may be able to negotiate a better arrangement directly with individual states.

Conclusion

The issue of nexus for sales/use and for income tax purposes is a complex one. As evidenced by the nexus questionnaires included in this checklist package, there is a tremendous degree of inconsistency among the states. The large number of court cases in this area highlight the fact that the Due Process and Commerce Clause analysis is largely dependent on the specific facts and circumstances of each case. Among the state court systems, emerging issues, such as agency nexus, affiliate nexus, electronic nexus, and economic nexus, evolve in the ever changing market place. This guide is meant as a broad reference tool in highlighting those areas that the individual states have deemed to create nexus within the state for purposes of subjecting the entity to taxation in the state.

STATE TAX NEXUS CHECKLIST – FREQUENTLY ASKED QUESTIONS ON STATE NEXUS QUESTIONAIRES

	<u>YES</u>	<u>NO</u>	<u>COMMENTS OR EXPLANATION</u>
1) Is the business qualified to do business in the state?	_____	_____	_____
2) Is the business currently filing with the state (specify type of tax)?	_____	_____	_____
3) Does the business have an office, agency, warehouse, or other business location owned or leased in the state?	_____	_____	_____
4) Does the business maintain a telephone answering service in the state?	_____	_____	_____
5) Does the business own or lease real property in the state?	_____	_____	_____
6) Does the business own or lease tangible personal property located in the state?	_____	_____	_____
7) Does the business rent or lease tangible personal property to others who then use the property in the state?	_____	_____	_____
8) Does the business license intangible property for use in the state?	_____	_____	_____
9) Does the business license software for use in the state?	_____	_____	_____
10) Has the business ever executed contracts in the state?	_____	_____	_____
11) Does the business have employees or representatives who perform any of the following activities in the state:	_____	_____	_____
a) Solicit orders with or without authority to approve?	_____	_____	_____
b) Engage in managerial or research activities?	_____	_____	_____
c) Secure deposits on sales?	_____	_____	_____
d) Make collections on regular or delinquent accounts?	_____	_____	_____
e) Repossess items or property of the business?	_____	_____	_____
f) Offer technical assistance and training to purchasers of its products before or after the sale?	_____	_____	_____
g) Repair, service, or replace faulty or damaged goods?	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>COMMENTS OR EXPLANATION</u>
h) Install or assemble its products?	_____	_____	_____
i) Does the business license software for use in the state?	_____	_____	_____
j) Inspect the installations of the business products by its customers or users of its products?	_____	_____	_____
k) Pick up or verify destruction or damaged or returned merchandise from customers or users of the business products?	_____	_____	_____
l) Coordinate delivery of merchandise, whether or not special promotions are involved?	_____	_____	_____
m) Distribute replacement parts?	_____	_____	_____
n) Conduct credit investigations or arrange for credit and financing for purchasers of its products?	_____	_____	_____
o) Rectify or assist in rectifying any product, credit, shipping or similar complaint arising from the purchase or use of its products?	_____	_____	_____
p) Service or maintain displays of its products?	_____	_____	_____
k) Accept returned merchandise for customers?	_____	_____	_____
r) Selling of tangible personal property?	_____	_____	_____
s) Make "on the spot" sales of company products?	_____	_____	_____
t) Carry out engineering or design functions?	_____	_____	_____
u) Advise customers or distributors as to minimum inventory levels, remove obsolete, damaged or outdated goods?	_____	_____	_____
v) Process complaints?	_____	_____	_____
12) Does the business have a standard form of written agreement with sales representatives? If so, please enclose a copy.	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>COMMENTS OR EXPLANATION</u>
13) Is the business a member of an affiliated group of corporations? If so, does the business file a consolidated or combined return in the state?	_____	_____	_____
14) Does the business have display merchandise in leased space in the state?	_____	_____	_____
15) Do employees have samples in the state? If yes, then state the average value thereof.	_____	_____	_____
16) Does the business reserve the right of inspection of the customer's facilities or products after delivery?	_____	_____	_____
17) Does the business provide sales or service manuals to customers, distributors, or agents?	_____	_____	_____
18) Does the business advertise in the state? If so, list the different advertising media use.	_____	_____	_____
19) Does the business do any localized advertising (cooperative or otherwise) in the state?	_____	_____	_____
20) Does the business have any employees or representatives who use their home in state:	_____	_____	_____
a) As a business address?	_____	_____	_____
b) To receive business callers?	_____	_____	_____
c) To store inventory?	_____	_____	_____
d) To maintain books/records?	_____	_____	_____
e) To maintain company property?	_____	_____	_____
21) Are employees reimbursed for telephone, fax or utilities expenses?	_____	_____	_____
22) Are home numbers listed in local advertisements of the business?	_____	_____	_____
23) Do employees of the company solicit orders for the sale of:	_____	_____	_____
a) Real estate?	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>COMMENTS OR EXPLANATION</u>
b) Services?	_____	_____	_____
c) Intangible property?	_____	_____	_____
24) Does the business perform construction contracts in the state?	_____	_____	_____
25) Is the business listed in any telephone directories in the state?	_____	_____	_____
26) Does the business have any consigned stock of goods in the state?	_____	_____	_____
27) Does the business operate a mobile store in the state?	_____	_____	_____
28) Has the business previously filed income tax returns in the state?	_____	_____	_____
29) Does the business maintain a security interest/mortgage in property until the contract price or amount borrowed has been paid?	_____	_____	_____
30) Do employees either investigate, recommend, or appoint potential dealers, agents, or distributors of the company in the state?	_____	_____	_____
31) Do employees ever check the inventories of customers or distributors in the state?	_____	_____	_____
32) Do employees authorize credits, warrant adjustments or repairs in the state?	_____	_____	_____
33) Does the business have agents or independent contractors selling products in the state? If so, are they forbidden from selling or promoting competitors' services?	_____	_____	_____
34) Does the business give approval to servicing distributors and dealers within the state where customers can have products serviced or repaired?	_____	_____	_____
35) Does the business participate in a partnership, as general or limited partner, which has operations, conducts business, or owns real property in the state?	_____	_____	_____

MULTISTATE TAX ISSUES – EXPLANATION

There are three methods of dividing the income tax base of a multistate corporation among the states in which it is taxable: (1) separate accounting, (2) specific allocation, and (3) formulary apportionment.

1. SEPARATE ACCOUNTING

Under the separate accounting method, the activities of a corporation within a state are considered separate and distinct from those outside the state. The corporation attempts to source each item of revenue and expense to the state where it was generated.

Because it has several major weaknesses, separate geographical accounting in the state tax area (once the preferable method for determining the income of a corporation) is now used only in limited instances. Its primary weaknesses are the lack of accuracy and ease of manipulation.

2. SPECIFIC ALLOCATION

Under the specific allocation method, while certain types of income are traced to their source or other connection with a state and attributed solely to that state, other types of income are apportioned among the states where the corporation is doing business. In most states, income that is classified as nonbusiness may be specifically allocated and income that is classified as business may be subject to apportionment.

A. Business v. Nonbusiness Income

The distinction between business and nonbusiness income is significant because while nonbusiness income is allocable to a specific state (either the taxpayer's state of commercial domicile or the situs of the property), business income will be subject to apportionment and will be divided among the states in which the multistate taxpayer does business based on a mathematical apportionment formula.

The three main methods used to determine whether income is business or nonbusiness are:

- 1) UDITPA Definitions of Business and Nonbusiness Income;
- 2) MTC Regulations (when adopted by a state); and
- 3) United States Supreme Court cases.

1) UDITPA Definitions of Business and Nonbusiness Income

Under UDITPA, business income is defined as income that arises from transactions and activities in the regular course of the taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. UDITPA §1(a). UDITPA defines nonbusiness income as all income *other than* business income. UDITPA §1(e).

Most states interpret the UDITPA (Uniform Division of Income for Tax Purposes Act) definition of business income as incorporating two tests for determining whether income is business income. The tests are referred to as the "transactional test" and the "functional test." Most states take the position that if income is classified as business income under *either* test, the income will be classified as business income. However, the courts of several states have interpreted the UDITPA language as requiring both tests be satisfied in order to classify income as business income.

MULTISTATE TAX ISSUES – EXPLANATION

a. Transactional Test

Under the transactional test, income is considered business income if it arises from "transactions and activities in the regular course of the taxpayer's trade or business." The focus is on the *type of transaction* giving rise to the income, and how the transaction relates to the taxpayer's regular trade or business.

Example: The sale of a factory by a manufacturer normally would be considered unusual, extraordinary, and occurring outside the normal course of business. As such, the gain would be considered nonbusiness income under the transactional test.

b. Functional Test

Under the functional test, income is considered business income if the acquisition, management, and disposition of the asset that generates the income constitute integral parts of the taxpayer's regular trade or business operations. The functional test focuses on the *relationship* between the asset giving rise to the taxable income, and the business itself.

Example: Gain or loss on the sale of a factory by a manufacturer likely would be considered business income under the functional test because the factory was acquired and used in the taxpayer's regular trade or business.

2) MTC Regulations

Under the Multistate Tax Commission (MTC) regulations, which interpret UDITPA, there is a presumption in favor of classifying income as business income. According to the MTC regulations, "the income of a taxpayer is business income unless clearly classifiable as nonbusiness income." MTC Reg. §IV.1.(a). The following are examples of business income under the MTC Regulations:

- Rents received from property "used" in or "incidental [to]" the taxpayer's trade or business.
- Gains and losses from dispositions of real or personal property if the property was used in the taxpayer's trade or business.
- Interest, if the intangible generating the interest is used or arose from the trade or business or where the purpose for acquiring and holding the intangible is related to or incidental to such trade or business operations.
- Dividends, if the stock arose out of or was acquired in the regular course of the taxpayer's trade or business operations or where the purpose for acquiring and holding the stock is related to or incidental to the taxpayer's trade or business.
- Patent and copyright royalties are business income if the patent or copyright arose out of or was created in the regular course of the taxpayer's trade or business operations or where the purpose for acquiring and holding the patent or copyright is related to or incidental to such trade or business operations.

3) The United States Supreme Court

In addition to the rules under UDITPA and the MTC regulations, the U.S. Supreme Court has adopted another test to determine whether income is subject to apportionment.

In *Allied-Signal, Inc. v. Director, Division of Taxation*, 504 U.S. 768 (1992), the Court held that only income from the taxpayer's unitary business is apportionable income. If the taxpayer's activities and properties are part of a unitary business, income from such activity or property is considered to be derived from the regular course of the taxpayer's trade or business and is deemed to be apportionable income. Income that is unrelated to the taxpayer's unitary business is considered to be income subject to allocation.

MULTISTATE TAX ISSUES – EXPLANATION

However, while affirming the unitary test for determining whether income is apportionable, the Court held that it is not the exclusive means of meeting the constitutional requirements for apportioning income.

The Court introduced the operational versus investment function test. Under this test, a transaction or activity may create apportionable income if it serves an operational, rather than an investment, function. By way of example, the Court pointed out that interest earned by a corporation on short-term bank deposits used as working capital may be apportionable even though the bank and corporation are not engaged in a unitary business. Likewise, income received from stock of a company held by a corporation to ensure a steady supply of raw materials for the corporation's production process would presumably constitute apportionable income even if the supplier was not part of the taxpayer's unitary business. Similarly, income from stock investments that constitute interim uses of idle funds accumulated for future business operations would apparently constitute apportionable income.

As in *ASARCO v. Idaho State Tax Comm'n*, 458 U.S. 307 (1982), the Court rejected a "business purpose" test, stating that the mere fact that an intangible asset was acquired pursuant to a long-term corporate strategy of acquisitions and dispositions does not convert an otherwise passive investment into an operational function.

B. Allocation Of Nonbusiness Income

Once income has been classified as nonbusiness, the next step is determining to which state it is allocated. Generally, the income is sourced to the state in which the property is located (for tangible assets) or to the taxpayer's commercial domicile (for intangible assets).

1) Commercial Domicile

Depending on the taxpayer, the identification of a taxpayer's state of commercial domicile can be a very simple or a more complex process. Under UDITPA §1(b), commercial domicile is defined as the "principal place from which the trade or business of the taxpayer is directed or managed." The criteria that are typically used to determine the commercial domicile of a taxpayer include:

- Site of board of directors' meetings;
- Location of stockholder meetings;
- Location and residence of the officers; and
- Location of corporate records and bank accounts, etc.

Although many states apportion business income and allocate nonbusiness income, not all states follow this practice. Some states specifically allocate only specified types of income (e.g., interest, dividends, rents, royalties) and others apportion all types of income except that on which the state is prohibited under the U.S. Constitution from imposing tax - See *Allied Signal*.

3. FORMULARY APPORTIONMENT

As indicated above, certain states apportion income that is classified as "business" income. However, according to the U.S. Supreme Court, the Constitution requires that formulary apportionment be applied only to the income of a unitary business. As the Court states, "[t]he linchpin of apportionability in the field of state taxation is the unitary business principle." *Mobil Oil Corp. v. Commissioner of Taxes*, 445 U.S. 425 (1980).

A. Unitary Business

A number of requirements for determining the scope of a unitary business have developed. In addition to Supreme Court decisions addressing unitary business principles, the following tests devised at the state level have gained widespread applicability: (1) the three unities test, (2) the contribution and dependency test, (3) the Multistate Tax Commission test, and (4) the factors of profitability test. There may also be "unitary" implication for a single corporate entity in addition to "unitary" implications in relation to a unitary group of affiliated corporations

MULTISTATE TAX ISSUES – EXPLANATION

1) Three Unities Test

The three unities approach was developed in *Butler Brothers v. McColgan*, 111 P.2d 334, 341 (Cal. 1941), and provides that analytically "the unitary nature of a business is definitely established by the presence of the following circumstances: (1) unity of ownership; (2) unity of operation as evidenced by central purchasing, advertising, accounting, and management divisions; and (3) unity of use in its central executive force and general system of operation."

Unity of ownership refers to a common ownership structure of a business and its affiliates. Although the resolution of this test depends in large part on the particular provisions of each states' law, as a general rule, there must be greater than 50 percent stock ownership before a group of businesses satisfy the unity of ownership requirement.

Unity of operation is evidenced by centralized support functions such as:

- corporate accounting;
- legal;
- personnel;
- purchasing;
- advertising;
- selling; and
- research and development, or other like departments.

Unity of use is apparently shown by a central executive force, and a general system of operations. Although unity of use appears to require executive direction to achieve corporate goals, it is not clear as to what extent control must be exercised by the central executive force.

Although it is hard to differentiate between the unity of operation and unity of use tests, one California decision, *Chase Brass & Copper Co. v. Franchise Tax Board*, 10 Cal. App. 3d 496 (1970), attempted to reconcile the two tests. The unity of operation test refers to the personnel of an organization who furnish auxiliary and advisory services and do not directly participate in production. The unity of use test refers to the personnel who are directly responsible for manufacturing and assembling functions in the various stages of production.

2) Contribution and Dependency Test

The contribution and dependency approach was set forth in *Edison California Stores v. McColgan*, 183 P.2d 16 (Cal. 1947). The California Supreme Court stated that where "the operation of the portion of the business done within the state is dependent upon or contributes to the operation of the business without the state, the operations are unitary," 183 P.2d at 24-25.

This test is the one most widely used in determining whether a unitary business exists. Although it does not suffer from the narrow scope of the three unities test, its breadth is also the test's primary weakness because of its inability to identify what elements are important in making a unitary determination.

If any element of operational interdependence, however insubstantial, was sufficient to create a unitary business, then apparently any commonly controlled businesses would constitute a unitary business (*e.g.*, due to common accounting and reporting systems, common officers, common insurance plans) under this test. Thus, for the unitary business concept to have any meaning, some weight apparently must be given to the substantiality of the interdependence.

MULTISTATE TAX ISSUES – EXPLANATION

3) Multistate Tax Commission Test

The Multistate Tax Commission (MTC) has issued guidance on whether the activities of a taxpayer are to be regarded as a single trade or business or separate trades or businesses and, although the regulations speak of the operations of one taxpayer, many states have chosen to apply the rules across legal entities.

According to MTC Reg. §IV.1.(b), any of the following factors creates a strong presumption that the activities of the taxpayer constitute a unitary business:

- Same type of business;
- Steps in a vertical process; and
- Strong centralized management.

4) Factors of Profitability Test

In *Mobil Oil Corp. v. Vermont Tax Commissioner*, 445 U.S. 425 (1980), the U.S. Supreme Court held that the income of a multistate business can be apportioned if its intra-state and out-of-state activities from a part of a unitary business. In *Mobil*, the Court set out the following factors, which have become the basis of determining whether a business is unitary:

- functional integration;
- centralization of management; and
- economies of scale.

B. Apportionment Formulas

Under formulary apportionment, there is no attempt to trace items of income to the state in which the income was generated. Rather, a formula is used to arrive at an accurate approximation. Formulary apportionment divides a multistate corporation's tax base among the states in which it does business by applying a fraction representing the ratio of in-state factors to total factors. Formulary apportionment merely approximates the amount of income of a business that should be attributed to a particular state.

Dividing the income of a corporation by the use of a statutory formula provides a rough approximation of the corporation's income that is reasonably attributable to the corporation's operations in the state.

The fact that a corporation has sales in other states does not automatically mean the corporation has the right to allocate and apportion its income. Most states do not permit a corporation to allocate or apportion its income to other states unless the corporation is taxable in another state. Some states require that the corporation actually file an income tax return with at least one other state before the corporation has the right to allocate and apportion its income.

The method most frequently used to apportion business income to a particular state uses a three-factor formula that compares the ratio of in-state to overall property, payroll, and sales.

Although most states use the standard evenly-weighted, three-factor formula, certain states incorporate formulas that deviate slightly from the standard formula. For example, a majority of states assign more weight to the sales factor than the other two factors (i.e., double weight the sales factor) or use a formula with less than three factors (two-factor or single-factor formulas). In addition, some states provide different formulas depending upon the taxpayer's industry.

MULTISTATE TAX ISSUES – EXPLANATION

Generally, in determining the apportionment formula, the sum of the factors is divided by no more than the number of applicable factors. Therefore, if one or more of the factors is not present for the total operations of a corporation (i.e., the denominator of the factor is zero), the average apportionment typically is determined by dividing the sum of the factors by the number of the factors present. For example, for a state that has adopted an evenly-weighted three-factor formula, if either the sales, property or payroll factors are not present, the apportionment formula is determined by dividing the sum of the remaining two factors by two.

In general, a taxpayer first ascertains the income that is to be apportioned (and then multiplies this amount by the arithmetical average of three ratios:

- in-state property to total property;
- in-state payroll to total payroll; and
- in-state sales to total sales.

1) Property Factor

In general, the property factor consists of the taxpayer's real and tangible personal property owned or rented and used during the tax period in the regular course of the taxpayer's trade or business. Intangible property is not usually included in the property factor. Additionally, only property used to produce business income, not property that produces nonbusiness income, is included in the property factor. Property owned typically is valued at its average (beginning of year and end of year) cost. Rented property usually is valued at eight times its annual rental.

2) Payroll Factor

In general, the payroll factor consists of compensation paid by the taxpayer in the regular course of its trade or business during the tax period. Compensation consists of:

- taxable wages
- salaries;
- commissions; and
- any other form of remuneration paid to employees for personal services, (but does not include amounts paid to independent contractors).

Some states exclude officers' compensation from the payroll factor.

3) Sales Factor

In general, the sales factor consists of all gross receipts from transactions and activities in the regular course of the taxpayer's trade or business. The sales factor normally includes, but is not limited to the following:

- gross sales (less returns and allowances)
- fees and commissions received from the performance of services;
- rents and lease payments received from renting real or tangible property;
- proceeds from the disposition of other tangible and intangible assets; and
- royalties and other payments received from the sale, assignment, or licensing of intangible personal property such as patents and copyrights.

In order to prevent certain receipts from escaping inclusion in any state's sales factor numerator, many states incorporate the "throwback" rule. Sales to a destination state where the seller is not taxable (e.g., because its activities do not exceed solicitation under P.L. 86-272) are "thrown back" to the numerator of the state from which the goods were shipped.

NET OPERATING LOSSES (NOLs) STATE TAX ISSUES -- EXPLANATION

Most states permit a deduction for NOLs. While some states explicitly adopt the federal NOL deduction by using line 30 of federal Form 1120 (taxable income after the NOL deduction and special deductions) without modification as the starting point for computing state taxable income, others use line 30 as the starting point of the state tax calculation, but add back the federal NOL deduction and provide a specific computation of the state NOL deduction. Still other states begin the tax calculation with line 28 of the federal return (taxable income before NOL deduction and special deductions) and provide their own set of rules for determining the NOL deduction. These states typically permit a state-level NOL deduction that generally parallels the federal approach.

The most common variation in determining state NOLs involves the determination of the period of carryback and carryforward. Many states do not follow the federal rules under I.R.C. §172. Approximately 15 states limit the carryforward period, while approximately 20 states do not allow NOL carrybacks at all. Note that federal and state NOL periods may not match because the taxpayer may not have been doing business in the state in the loss year, or because the NOL arose before the state began imposing the tax.

Regardless of conformity to line 28 or 30, the state NOL and the amount of carryback or carryover allowed may differ from the federal amount as a result of state adjustments (modifications), the application of apportionment factors, whether the corporation was subject to the state's tax in the loss year, and the segregation of business and nonbusiness income (*i.e.*, allocation of nonbusiness income and the apportionment of business income).

Some states require that the NOL be carried over from the loss year after allocation and apportionment. These states provide that the NOL deduction should be applied in the carryover year after allocation and apportionment. This permits only the loss attributable to that state to be carried over against income from that state.

In determining the amount of NOLs in states that compute NOLs on a post-apportionment basis, a state may use the apportionment factor in the loss year or the apportionment factor in the year the loss is utilized. Other states, however, allow the NOL computation to be made before apportionment and permit the deduction to be applied in the carryover year before apportionment.

A few states permit an affiliated group of corporations to file a consolidated state return rather than separate returns for each affiliated corporation if the requirements of the Internal Revenue Code and state law are satisfied. Even if consolidated returns are filed at both the federal and state levels, the calculation of the NOL deduction for federal and state purposes may differ markedly.

CONSOLIDATED RETURNS

Some states, even in the context of a consolidated filing, may require NOLs to be tracked on a separate company basis.

Some states add their own restrictions on the use of NOLs generated in separate return filing years. A number of states do not permit consolidated returns and hence require affiliated group members filing a consolidated federal return to compute their state NOL deductions on a separate company basis.

COMBINED REPORTING

Combined reporting may be elective or required by a state. States that provide for combined reporting differ as to how the NOL computation is to be made. If a state allows or requires a member of an affiliated group filing a consolidated federal return to file on a separate company basis, the NOL generally is computed as if the member filed on a separate company basis for federal income tax purposes. Thus, the NOLs available for state purposes may differ from those reported on the federal consolidated returns.

Note that each state's definition of consolidated versus combined reporting should be reviewed prior to preparing any state tax returns. Also note that the states vary in their treatment of NOL carryovers after corporate reorganizations, acquisitions, or liquidations.

STATE CORPORATION INCOME TAX RETURN CHECKLIST

1998

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) For comprehensive charts and lists of various items and requirements (e.g., tax rates, filing dates, extensions, estimated taxes, exemptions, reports, limitation periods, NOL deductions, etc.), refer to state tax reporter services such as the <u>All States State Tax Guide</u> or <u>Multistate Corporate Income Tax Guide</u> or <u>CCH State Tax Review</u> by Commerce Clearing House (CCH), or other publications by Tax Management, Inc./The Bureau of National Affairs, Inc., or the Federation of Tax Administrator's internet web page at http://sso.org/fta/fta.html	_____	_____	_____
102) Obtain information concerning state tax audits and correspondence	_____	_____	_____
103) If a federal audit has been settled, notify states properly.	_____	_____	_____
104) Determine if the client has sufficient connection with any other state that may require an income and/or franchise tax return. Note that requirements for filing a franchise tax return may differ from requirements for filing an income tax return. If multistate, see items under 500) below.	_____	_____	_____
105) Consult the <u>Unique State by State Considerations for State Corporation Tax Returns</u> (also in this AICPA <u>Tax Practice Guides and Checklists</u> publication package) for common problems and unique tax issues for each state tax return to be prepared. Also consult the various <u>Nexus, Multistate Tax and State NOL Issues Practice Guides</u> in this AICPA <u>Tax Practice Guides and Checklists</u> publication package for a discussion which may be helpful for further information relevant to the questions below in 109), 600), and 700).	_____	_____	_____
106) Obtain and review information related to state statutory, regulatory or administrative changes since the filing of the prior return.	_____	_____	_____
107) Review prior year returns.	_____	_____	_____
108) Consider the impact of any acquisitions, divestitures and reorganizations on state income and franchise taxes.	_____	_____	_____
109) Determine with the client the proper filing status (combined or separate reporting, unitary issues, consolidated) for multicompany entities. Check for election possibilities or a mandatory method	_____	_____	_____
110) If an S corporation return is prepared, review S corporation provisions for each state and review taxation of S corporation shareholders, especially nonresidents, for each state. In addition, determine if any QSSS's exist.	_____	_____	_____

STATE CORPORATION INCOME TAX RETURN CHECKLIST
1998

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
200) INCOME			
201) If the state uses income on the federal return as a starting point, either before or after the net operating loss deduction or special deduction, transfer income information from the federal return.	_____	_____	_____
202) Determine interest and dividends from bonds that are exempt from federal tax for possible add back. Check for possible offset of direct expenses against the tax-exempt income.	_____	_____	_____
203) Determine each state's tax-exempt interest and dividends for possible deduction (i.e., home state interest if all states' interest was added back in item 202) above. Check for possible offset of direct expenses against the tax-exempt income.	_____	_____	_____
204) Determine interest and dividends from U. S. government obligations for possible deduction. Check for possible offset of direct expenses against the tax-exempt income.	_____	_____	_____
205) Check for any other income taxable on the state return that was not taxed on the federal return.	_____	_____	_____
206) Check for any income taxable on the federal return that may not be taxable on the state return.	_____	_____	_____
300) DEDUCTIONS			
301) Determine any differences between federal and state deductions (e.g., state tax deduction, dividend received deduction, depreciation).	_____	_____	_____
302) Determine any differences between federal and state carryovers (e.g., capital loss, excess charitable contributions).	_____	_____	_____
400) TAX COMPUTATION AND CREDITS			
401) Determine any state alternative minimum tax.	_____	_____	_____
402) Compute any applicable tax credits (e.g., investment, jobs, enterprise, environmental, rehab) including carryovers.	_____	_____	_____
403) Compute any credit recaptures.	_____	_____	_____
404) Claim all estimated and extension tax payments.	_____	_____	_____
405) Prepare estimated tax vouchers.	_____	_____	_____
406) Compute tax underpayment penalties.	_____	_____	_____

STATE CORPORATION INCOME TAX RETURN CHECKLIST
1998

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
500) MULTISTATE ISSUES			
501) Determine in which states a multistate corporation is required to file income or franchise tax returns. Consult the <u>AICPA State Tax Nexus Checklist/Practice Guide</u> for guidance. See the <u>State Corporate Tax Issues Practice Guide</u> (also in this AICPA Tax Practice Guides and Checklists publication package) for an overview of nexus and details on ordering the AICPA <u>State Tax Nexus Checklist/Practice Guide</u> .	_____	_____	_____
502) Consult the <u>State Corporate Tax Issues Practice Guide</u> (also in this AICPA Tax Practice Guides and Checklists publication package) for information on multistate allocation and apportionment and net operating loss issues.	_____	_____	_____
503) If the corporation is not taxable in more than one state, determine whether the corporation is permitted to apportion its income.	_____	_____	_____
504) Determine the available methods of dividing the income tax base of a multistate corporation for all states for which returns are required (i.e., separate accounting, specific allocation, formulary apportionment). Check for any states with special elections available.	_____	_____	_____
505) If separate accounting method is available and beneficial, determine if necessary records for separate accounting are available.	_____	_____	_____
506) Determine the need to distinguish between business income and nonbusiness income. Review the respective tests.	_____	_____	_____
507) Determine if the corporation has income subject to specific allocation. If so, determine treatment of expenses directly or indirectly related to allocated income. (These are generally added back or netted against the applicable income.)	_____	_____	_____
508) Determine whether the state in which you are filing requires or permits unitary, combined or consolidated reporting and if so, which test(s) applies.	_____	_____	_____
509 Determine each state's restriction, if any, on the offset of capital gains against capital losses.	_____	_____	_____
510) Determine the total income that is to be apportioned.	_____	_____	_____
511) Determine each state's apportionment formula for business income.	_____	_____	_____
1) Check whether any of the states' formulas differ from the standard three-factor formula (e.g., double weighted sales factor, a formula with less than three factors or a specific formula based on the corporation's industry).	_____	_____	_____
2) Check the various states' rules that establish what items are included in the factors, the timing of entry and removal from the factors, the evaluation of items included in the factors, and how items are assigned to a particular state and included in that state's apportionment factor numerator.	_____	_____	_____
512) Determine the amounts to be included in the property factor and check the various states' rules concerning the use of cost or adjusted book values in property values.	_____	_____	_____

STATE CORPORATION INCOME TAX RETURN CHECKLIST**1998**

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
513) Determine the amounts to be included in the payroll factor and check the various states' rules for treatment of special classes of compensation such as compensation of corporate officers, commissions and other compensation, or payments to independent contractors.	_____	_____	_____
514) Determine the amounts to be included in the sales factor considering each state's rules concerning "throwback" sales.	_____	_____	_____
600) STATE NOL ISSUES			
601) Determine each state's rules concerning calculation of net operating losses (NOLs) and any related carrybacks or carryforwards.	_____	_____	_____
602) Determine each state's starting point for calculation of an NOL, such as federal taxable income with or without NOL modification, or federal taxable income before the federal NOL deduction with a state specific NOL calculation.	_____	_____	_____
603) For multistate returns:			
.1) Determine each state's effect on the NOL and the amount of carryback or carryforward due to state modifications, apportionment factors, and the allocation of nonbusiness income.	_____	_____	_____
.2) Determine whether each state's loss can be carried back or carried forward only against income from that state.	_____	_____	_____
.3) Determine whether NOL carryforwards and carrybacks use the apportionment factor for the year of the loss or for the year the loss is utilized.	_____	_____	_____
604) For affiliated groups of corporations filing a consolidated return:			
.1) Determine whether state NOLs may be required to be tracked on a separate entity basis.	_____	_____	_____
.2) Check for state requirements concerning separate return filing years and effects on NOL carryforwards and carrybacks.	_____	_____	_____
605) If combined corporate reporting is allowed or required by a state, check if combined or separate method is used for calculating the NOL for that state.	_____	_____	_____
606) Check on the treatment of any NOL carryovers if a corporation has had a reorganization, acquisition, or liquidation.	_____	_____	_____
607) Consult the <i>State Corporate Tax Issues Practice Guide</i> (also in this AICPA <i>Tax Practice Guides and Checklists</i> publication package) for an explanation of state net operating loss issues.	_____	_____	_____
700) OTHER REQUIREMENTS			
701) Attach extensions and other required attachments.	_____	_____	_____
702) Identify planning opportunities for minimizing state taxes.	_____	_____	_____

STATE CORPORATION INCOME TAX RETURN CHECKLIST
1998

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
703) Identify and report any out of jurisdiction purchases for use tax.	_____	_____	_____
704) Determine if the corporation would gain any state tax advantages by changing its state of incorporation or principal office.	_____	_____	_____
705) Consider preparing a note for the top of the file concerning state items to track, carryforward items, and any matters of future concern	_____	_____	_____

COMMENTS OR EXPLANATIONS

STATE REVENUE DEPARTMENT LISTING

NOTES

Alabama

Department of Revenue
Income Tax Division
P.O. Box 327410
Montgomery, AL 36132-7410
(334) 242-1000
E-mail: henningen@alalinc.net
www.ador.state.al.us/

Alaska

Department of Revenue
State Office Building
P.O. Box 110420
Juneau, AK 99811-0420
(907) 465-2320
www.revenue.state.ak.us

Arizona

Department of Revenue
Attention: Forms
1600 West Monroe Street
Phoenix, AZ 85007-2650
(602) 542-4260

Arkansas

Department of Finance and Administration
Revenue Division
P.O. Box 3628
Little Rock, AR 72203-3628
(501) 682-1100
www.state.ar.us/revenue/rev1.html

California

Franchise Tax Board
Tax Forms Request
P.O. Box 942840
Sacramento, CA 94240-0070
(800) 852-5711
www.ftb.ca.gov

Colorado

Colorado Department of Revenue
1375 Sherman Street
Denver, CO 80261
(303) 232-2416
www.state.co.us

Connecticut

Department of Revenue Services
25 Sigourney Street
Hartford, CT 06106
(860) 297-4900
www.state.ct.us/drs

Delaware

Department of Finance
Division of Revenue
Delaware State Building
820 N. French Street
Wilmington, DE 19801
(302) 577-3300
www.state.de.us/govern/agencies/revenue/revenue.htm

Florida

Department of Revenue
Supply Department
168-A Blountstown Highway
Tallahassee, FL 32304
(805) 488-8422

Georgia

Georgia Income Tax Unit
Department of Revenue
P.O. Box 30334
Atlanta, GA 30334
(404) 656-4293 *or* -4071 *or* -4674
www.state.ga.us/Departments/DOR

Hawaii

First Taxation District
P.O. Box 259
Honolulu, HI 96809
(800) 222-3229
www.hawaii.gov/icsd/tax/tax.htm

Idaho

Idaho State Tax Commission

P.O. Box 36

Boise, ID 83722

(208) 334-7660

www.state.id.us/tax/taxforms.html - Forms only

www.state.id.us/index.html - State Home Page

Illinois

Illinois Department of Revenue

101 W. Jefferson

Springfield, IL 62794

(800) 356-6302 or (217) 782-3336

www.revenue.state.il.us

Indiana

Indiana Department of Revenue

Taxpayer Services Division

Indiana Government Center, North

100 N. Senate Avenue

Indianapolis, IN 46204

(317) 232-2240

www.ai.org/dor

Iowa

Iowa Department of Revenue and Finance

Hoover State Office Building

P.O. Box 10457

Des Moines, IA 50306

(515) 281-3114

E-mail: iadrf@iadrt.e-mail.com

www.state.ia.us/government/drf/index.html

Kansas

Department of Revenue

Division of Taxation

Taxpayer Assistance Bureau

P.O. Box 12001

Topeka, KS 66612-2001

(785) 296-4937

www.ink.org/public/kdor

Kentucky

Revenue Cabinet
Property and Mail Service
200 Fair Oaks Lane
Building 2
Frankfort, KY 40602
(502) 564-3658
www.state.ky.us/agencies/revenue/revhome.htm

Louisiana

Department of Revenue
P.O. Box 201
Baton Rouge, LA 70821
(504) 925-7532
www.rev.state.la.us

Maine

Maine Revenue Service
Income Tax Division
State Office Building
Station 24
Augusta, ME 04332
(207) 626-8475
www.state.me.us/revenue

Maryland

Comptroller of the Treasury
Revenue Administration
110 Carroll Street
Annapolis, MD 21411
(410) 260-7980 *or* 800-MDTAXES
www.comp.state.md.us

Massachusetts

Massachusetts Department of Revenue
Customer Service Bureau
P.O. Box 7010
Boston, MA 02204
(617) 887-6367
www.magnet.state.ma.us/dor/dorpg.htm

Michigan

Michigan Department of the Treasury
Revenue Administrative Services
The Treasury Building
430 W. Allegan Street
Lansing, MI 48922
(800) 367-6263 or (517) 373-3200

Minnesota

Minnesota Department of Revenue
Mail Station 4450
St. Paul, MN 55146-4450
(800) 652-9094 or (612) 296-3781
www.taxes.state.mn.us

Mississippi

Mississippi State Tax Commission
Print Shop
1577 Spring Ridge Road
Raymond, MS 39154
(601)923-7880

Missouri

Missouri Department of Revenue
P.O. Box 3022
Jefferson City, MO 65105-3022
(800) 877-6881 or (573) 751-5337
www.state.mo.us/dor/tax

Montana

Montana Department of Revenue
Income Tax Division
P.O. Box 5805
Helena, MT 59604
(406) 444-2837
www.mt.gov/revenue/rev.htm

Nebraska

Nebraska Department of Revenue
Box 94818
Lincoln, NE 68509-4818
(800) 742-7474/Jo Voelker or (402) 471-2971
www.nol.org/revenue

Nevada

State of Nevada
Department of Taxation
Capitol Complex
Carson City, NV 89710-0003
(702) 687-4892

New Hampshire

Department of Revenue Administration
State of New Hampshire
61 South Spring Street
Concord, NH 03301
(603) 271-2191
www.state.nh.us/

New Jersey

NJ Division of Taxation
P.O. Box 269
Trenton, NJ 08646-0269
(609) 292-7613
www.state.nj.us/treasury/taxation/

New Mexico

Taxation and Revenue Department
Revenue Division
P.O. Box 630
Santa Fe, NM 87504-0630
(505) 827-0700
www.state.nm.us/tax

New York City

YC Department of Finance
Bureau of Tax Collection
25 Elm Place
Brooklyn, NY 11201
(718) 935-6739 or 6000 -- Tax Fax (718) 935-6114
www.ci.nyc.ny.us

New York State

Department of Taxation and Finance
Taxpayer Services Division
W. Averell Harriman Campus
Building 9, Room 104
Albany, NY 12227
(800) 462-8100
www.tax.state.ny.us

North Carolina

NC Department of Revenue
P.O. Box 25000
501 N. Wilmington Street
Raleigh, NC 27640
(919) 733-4684
www.dor.state.nc.us/dor/

North Dakota

Office of State Tax Commissioner
State Capitol
600 East Boulevard Avenue
Bismark, ND 58505-0599
(701) 328-3017

Ohio

Department of Taxation
Income Tax Division
P.O. Box 2476
Columbus, OH 43216-2476
(614) 433-7750
www.state.oh.us/tax/

Oklahoma

Oklahoma Tax Commission
Income Tax Division
2501 Lincoln Boulevard
Oklahoma City, OK 73194
(405) 521-3108

Oregon

Oregon Department of Revenue
955 Center Street, N.E.
Salem, OR 97310
(503) 378-4988
www.dor.state.or.us

Pennsylvania

Commonwealth of Pennsylvania
Department of Revenue
Strawberry Square, 11th Floor
Harrisburg, PA 17128-1100
(717) 787-8201
1-888-PATAXES - Fact & Information Line (automated)
1-800-362-2050 - 24-Hour Tax Form Ordering
www.revenue.state.pa.us

Rhode Island

Rhode Island Division of Taxation
1 Capitol Hill
Providence, RI 02908-5800
(401) 222-3934
www.tax.state.ri.us

South Carolina

South Carolina Tax Commission
Individual Income Tax Division
P.O. Box 125
Columbia, SC 29214
(803) 898-5000
www.dor.state.sc.us

South Dakota

South Dakota Department of Revenue
445 E. Capitol Drive
Pierre, SD 57501-3185
(605) 773-5141
www.state.sd.us/state/executive/revenue/revenue.html

Tennessee

Department of Revenue
Andrew Jackson State Office Building
500 Deaderick Street
3rd Floor
Nashville, TN 37242
(615) 741-2594
www.state.tn.us/revenue

Texas

Comptroller of Public Accountants
State of Texas
111 West 6th
Starr Building
Austin, TX 78701
(512) 463-4600
www.window.state.tx.us

Utah

Utah State Tax Commission
210 North 1950 West
Salt Lake City, UT 84134
(801) 297-2200
www.tax.ex.state.ut.us

Vermont

Vermont Department of Taxes
109 State Street
Montpelier, VT 05609
(802) 828-2515

Virginia

Department of Taxation
Taxpayers Assistance
P.O. Box 1880
Richmond, VA 23282-1880
Attn: Forms Division
(804) 367-8031
www.state.va.us/tax/tax.html

Washington

Department of Revenue
P.O. Box 47478
Olympia, WA 98504-7450
(360) 786-6100
(360) 753-5574 - Director's Office
(800) 647-7706 - Taxpayer Info
www.ga.gov/dor/wador.htm

Washington, DC

Government of District of Columbia
Department of Finance and Revenue
441c Forth Street, NW
550N
Washington, DC 20001
(202) 727-6170

West Virginia

West Virginia Department of Tax & Revenue
Taxpayer Services Division
P.O. Box 3784
Charleston, WV 25337-3784
(304) 558-2051
www.wvweb.com/taxrev

Wisconsin

Wisconsin Department of Revenue
Shipping and Mailing Section
P.O. Box 8908
Madison, WI 53708-8908
(608) 266-1961
www.dor.state.wi.us

Wyoming

The State of Wyoming
Revenue Department
Herschler Building
122 West 25th
Cheyenne, WY 82002
(307) 777-5200
www.state.wy.us

Puerto Rico

Commonwealth of Puerto Rico
Department of the Treasury
Internal Revenue Collections Area
Bureau of Income Tax
P.O. Box 2501
San Juan, PR 00902-2501
(787) 721-2020